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# APARTMENT DEVELOPMENT HANDBOOK

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minnesota housing finance agency

MINNESOTA
HOUSING
FINANCE
AGENCY

# APARTMENT DEVELOPMENT

# HANDBOOK

APRIL, 1975

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# I. THE MINNESOTA HOUSING FINANCE AGENCY - AN INTRODUCTION

The Minnesota Housing Finance Agency was established by the 1971 Session of the Minnesota Legislature for the purpose of facilitating the construction and rehabilitation of housing for families of low and moderate income. This is accomplished through the sale of tax exempt revenue bonds at reduced rates of interest which provides interim and permanent financing to eligible borrowers at below market interest rates. These cost savings in interest charges are passed on to the eventual tenant or home buyer in the form of lower monthly housing cost. The Agency is primarily concerned with increasing the availability of housing for lower income families by combining its interest reduction with federal subsidies to bring housing costs to a level affordable by a wide range of income groups.

The bonds and notes sold by the Agency to generate the capital to allow it to make mortgage loans under its operating programs are not secured by a pledge of the State's credit. These bonds and notes represent debts of the Agency and not of the State of Minnesota. They are secured by the mortgages on the properties being financed with the proceeds of the sale of these bonds and notes. The repayment on the mortgage loans by the borrower also provides sufficient revenue from which the Agency can cover its operating costs. This eliminates the need for State appropriations to pay Agency operating costs.

As of January 1, 1975, the Minnesota Housing Finance Agency had provided financing for developing or mortgaging over 6,000 dwelling units. Total mortgage commitments, as of that date, amounted to $125 million. Financing is provided in four primary program areas:

1. Homeownership Loan Program - Through the sale of commitments to private lending institutions, the Agency has established relationships with 84 private lenders, including banks, savings and loan associations, and mortgage finance companies. These institutions are making loans to qualified borrowers and then delivering the loans to the Agency for purchase while the institution retains the servicing. Presently, the Agency is providing financing under its Homeownership Loan Program only for mortgages which are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. The Agency is currently planning on expanding this program to include conventional and privately insured loans.

2. Apartment Development Program - This program is described in detail in this Handbook.

3. Construction Loan Program - Under this program, the Agency provides interim financing for apartment developments for which the permanent financing is provided under terms of a commitment by GNMA. The Agency, generally, provides 90% of the financing during the construction period with a private institution providing the remaining 10% under terms of a Participation Agreement executed with the Agency.

4. Home Improvement Loan Program - This program, authorized under terms of legislation adopted by the 1974 Session of the Minnesota State Legislature, will provide a means of delivering low cost Title I insured home improvement loans to low and moderate income families. These loans will be at variable interest rates depending upon the income of the borrower. This program will begin full operation during the latter part of 1975.

In addition to the provision of financing, the Agency provides technical assistance to potential housing sponsors and engages in research and development for alternative means for delivering low cost, affordable and acceptable housing to lower income families. The Agency is currently engaged, for example, in an experimental program designed to provide a low cost basic home as an alternative to substandard living accommodations currently being experienced by the majority of low income rural families. The Agency will be engaging in similar types of research activities during the coming years.

The programs of the Housing Finance Agency, along with its financial statement for Fiscal Year 1974, are described in considerable detail in the Agency's 1974 Annual Report, a copy of which is available without charge.

# II. APARTMENT DEVELOPMENT PROGRAM

## A. INTRODUCTION

The Agency's Apartment Development Program is essentially a financing plan. It is made possible by the Minnesota Housing Finance Agency Law of 1971 pursuant to which mortgage loans are made for private construction of multi-family housing for persons and families who meet the Agency's income eligibility limits. The housing is privately designed, constructed, owned and managed. MHFA provides both the interim and permanent mortgage financing.

The Apartment Development Program has characteristics of both federal and conventional financing programs. This Chapter will describe some of the basic features.

The first section - - The Apartment Development Program in a Nutshell - - is an effort to provide a brief overview of the Program. The other more specific sections follow.

## B. THE APARTMENT DEVELOPMENT PROGRAM IN A NUTSHELL

Under the Agency's Apartment Development Program, both non-profit and limited profit 1/ developers can receive mortgage loans. Limited profit developers can obtain 90% mortgages, and non-profit groups 100% mortgages. The permanent mortgage is generally for a term of 40 years.

The loans are made directly by the Agency. Agency financing fees are mortgaged, and annual fees are included in the annual operating budgets, thus, there are no points or discounts payable. The financing fee (2% of mortgage amount) and the annual fee (approximately 1/2% of mortgage amount) are used to cover the Agency's operating costs. 2/ Application and commitment fees ($15 per unit for each) are credited toward the total financing fee. (See MHFA Fees, Page IV - 5 & 6.)

The Agency generates the funds for the Apartment Development Program through its sale of tax-exempt notes and bonds. At present, the Agency's statutory bonding capacity stands at $600,000,000, of which $100,000,000 is earmarked for rehabilitation loans. To date, approximately $130,000,000 of the total has been either committed, or tentatively reserved, under all of the Agency's mortgage loan programs (i.e. Homeownership loans, FHA-insured Apartment loans, and direct uninsured Apartment Development loans).

Construction financing is normally provided by the sale of one to two year notes. The interest rate on the Agency's notes is dependent upon market conditions at the time of sale. During 1973 and 1974, the rate on the notes has varied between 4.41% and 7.75%.

Subsequent to the completion of construction, long term bonds are sold to provide the permanent financing. It is anticipated that bonds will be sold at an interest rate between 1% and 2% below that of conventional sources of real estate financing. The timing of bond sales will be dependent upon market conditions. 3/

The Agency's goal in issuing notes and bonds is to raise funds at minimum cost for use in making mortgage loans. The savings on the notes and bonds are then passed on to developers by lower interest rates on the mortgage loans; with developers paying lower interest rates, tenants pay lower

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1/ Profit motivated developers (as opposed to non-profit sponsors) are called "limited profit" or "limited dividend" because their annual cash flow is currently limited to a maximum of 4% of "book equity" of, simply, "equity". Since "equity" does not represent cash invested, the percent return on cash invested is frequently greater than 4%. (See Profit Potential, Page II - 26.)

2/ These fees may be increased for developments with a small number of apartments.

3/ Although long term bonds are normally sold after the completion of construction, the Agency may consider sale at an earlier time. Such an early sale might be especially prudent when short term rates are unusually high -- as they were during the latter part of 1974.

rents. Money raised through sale of the Agency's debt securities is available for re-lending to developers at an interest cost that the Agency pays on its bonds plus the Agency's annual fee (currently set at 1/2%).

MHFA financing through tax-exempt securities generates interest savings in both the interim and permanent financing because of the difference in cost between tax-exempt and conventional borrowings. Although they fluctuate depending on conventional interest rate fluctuations, these MHFA savings can result in a reduction in monthly rent of as much as $40 per unit per month. Depending on family size and location, the lower cost tax-exempt financing can generate rents marketable to families with annual adjusted gross incomes -- in rough numbers -- of between $8,000 and $16,000. These income ranges are subject to periodic revision as wage, and construction and operating cost levels change. In addition, up to 25% of the units in a development, subject to Agency approval, may be rented to families above this income range.

Developments financed by the Agency are also eligible to receive federal subsidy assistance payments. When MHFA financing is combined with the federal Section 8 Program, families with incomes -- in rough numbers -- between $2,000 and $14,000 can be assisted, depending on family size and geographical location. Thus, the income levels capable of being served by housing financed under the Apartment Development Program can be extremely varied.

Because developments should be attractive to a broad range of income levels, the Agency requires that some of the savings inherent in MHFA financing be used, where appropriate, to provide increased housing quality and higher amenity levels. Some of the amenities which should be considered include: large room sizes, carpeting, extra half baths in larger apartments, and various community and recreational facilities.

There are no specific per unit construction cost or mortgage limitations under the MHFA Program. However, there are income limits. MHFA income limits apply on a portion of all MHFA financed developments. (See Page II - 7.) These income limits tend to keep development costs within the general cost parameters associated with the middle range of the unassisted housing market. Federal income limits apply on those portions of developments receiving Section 8 assistance. (See Page II - 7 and Exhibit B in Section VIII.)

Although MHFA financed developments are eligible for federally assisted Section 8 funds, there is no FHA mortgage insurance involved. MHFA makes site inspections, determines feasibility, reviews and processes plans, makes commitments, inspects construction and administers the federal assistance payments in cooperation with the federal government.

The Apartment Development Program has been designed to attract private developers to the low and moderate income housing field. Several aspects of the Program should be particularly important to prospective developers. Developments financed by MHFA are capable of reaching a housing market made up of a broad range of income levels. Financing is available and direct. There is no "shopping" for money. All construction and permanent loan funds are provided by the Agency. Loan processing is flexible. (See Page II - 24, Some Key Financial Characteristics, which provides some comparisons and contrasts with conventional and FHA financing.)

In addition, investment in developments financed by MHFA offers attractive profit potential. Although developers are limited under the Program to a maximum annual return on "equity" of 4% 4/ the actual "cash invested" by the developer may be substantially less than "equity". (See Page II - 26, Profit Potential.) There are often substantial tax benefits which can be achieved as well; i.e. the accelerated depreciation and recapture provisions are similar to those available on FHA insured Section 236 developments. (See Page II - 28, Tax Savings.) Interested developers are encouraged to discuss with their counsel the investment and tax opportunities which are associated with MHFA financing.

4/ See Page II - 16, Development Cost Escrow, for a discussion of the components within the return on equity.

## C. PROGRAM FEATURES

### 1. Developer Eligibility and Qualifications

The Agency can make loans to either limited profit or non-profit sponsors. A limited dividend sponsor can be in the form of a general or limited partnership, corporation, joint venture or trust.

A developer and members of the development team should have sufficient experience in apartment development to assure the Agency of the successful completion and operation of the development. In addition, the developer must be adequately capitalized to withstand the risks inherent in carrying out the proposed development. (See Page II - 22, Mortgage Credit Standards.)

### 2. Types of Developments

Included within the broad category of apartments eligible for MHFA financing are a variety of types and styles:

a. Elderly as well as family housing (including mixtures of the two)
b. New construction and rehabilitation
c. Garden apartments, townhouses, and high rise buildings
d. Housing for the developmentally disabled

The responsibilities of the Agency are statewide, and developments in all parts of the State are eligible to be financed under the Program. The Agency has set as one of its goals the attainment of an equal division in its Program activity levels between the Minneapolis-St. Paul metropolitan area and the outstate area. Because styles of living and the basic components of housing cost, such as land, vary widely throughout the State, the Agency finances both low rise and high rise construction. Which is appropriate -- and at what densities -- will have to be determined on a case by case basis. In general, it is the objective of the Agency to finance as high a quality of construction at as low a density as conditions permit.

### 3. Housing Quality

The Agency is committed to a high standard of housing quality. Because the permanent mortgage will generally be for a term of 40 years, the Agency requires that permanent quality be built into the development -- the Agency does not build "low cost" housing.

Some of the savings inherent in the tax-exempt financing should be used to create increased housing quality. (See Architects' Guide, Section V.)

In addition, amenities should be considered which will make the development attractive to the broad range of income levels which can be served by MHFA financed developments. Some of the possible amenities include: large room sizes, extra half baths in larger units, carpeting, connections for washers and dryers in larger units, dishwashers (except in small units), basements in townhouses, and various types of community and recreational facilities. Provision for air conditioning is strongly encouraged.

The amenity level appropriate for any particular development, of course, will vary according to the economic and market conditions of the particular site. They will vary throughout the State.

The Agency does look favorably upon including higher quality construction when it can be shown that annual operating and maintenance expenses can be reduced by the expenditure. Examples are: use of thermopane windows and extra insulation -- savings in heat loss; washable wall coverings in hallways -- less frequent repainting of wall surfaces; and others.

4. Mortgage Limits - - Construction Cost Limits

There are no per unit mortgage or construction cost limits associated with the Apartment Development Program. Of course, since there are limits upon the incomes of prospective residents, and therefore, ceilings upon the rents which the residents can afford, there are practical constraints upon construction costs. In addition, the "Fair Market Rent" concept contained in the Section 8 Program (See Page II - 7) provides a further constraint on construction costs on those developments that receive federal assistance.

Mortgage amounts of 90% and 100% of total development costs are available to limited profit and non-profit developers, respectively. (See Page II - 16, Mortgageable Costs.)

5. "Market" and "Section 8" Rents

The "market" rent is the rent which must be charged to pay the expenses of operating the development, such as debt service, maintenance, real estate taxes, reserve allowances, and owner's return on equity. The "market" rent, however, will reflect the savings resulting from the lower interest rates on MHFA tax-exempt financing.

The "Section 8" or subsidized rent is the rent for a unit in a development receiving federal subsidized Section 8 "housing assistance payments". The "Section 8" rent differs from the "market" rent in that it is a variable amount, based on the income of the tenant. Federal regulations require that 25% of the tenant's adjusted income be paid toward rent, with the Section 8 "housing assistance payment" making up the difference between tenant paid rent and the full "market" rent. For example, a one bedroom apartment might be occupied by a young couple at the market rent of $190 per month; a similar apartment occupied by a retired couple living on social security income (e.g. $400 per month) would be rented for $100 per month, with the federal government paying the $90 per month difference. Section 8 rents might be as low as $40 or $50 per month or nearly as high as the market rents, depending on the income of the tenant. For certain very large families and families of very low income the percentage of income payable towards rent can be as low as 15% rather than the normal 25%. In short, the Section 8 Program is extremely flexible.

6. "Fair Market Rents"

The "market" rents under the MHFA Program reflect the cost of constructing and operating the apartments in each development.

In order to be eligible for Section 8 Payments, however, the MHFA "market" rent (plus all utilities, except telephone) cannot exceed the approved "Fair Market Rent" for the area. Thus, a control is maintained against runaway costs -- a control based upon its judgment concerning cost levels and prevailing rents in each area. "Fair Market Rents" will be readjusted annually by the federal government to reflect current conditions.

Because MHFA's mandate to provide housing for low and moderate income families can best be fulfilled with active participation in the Section 8 Program, developers should attempt to produce apartments that can be rented within the "Fair Market Rents" that prevail. MHFA staff will work closely with developers in what must be a mutual and cooperative task of producing apartments which are feasible under both the MHFA and Section 8 requirements.

Some typical Fair Market Rents, as of January, 1975, as determined by the federal government:

| MARKET AREA | STRUCTURE TYPE | NUMBER OF BEDROOMS | | | | |
|---|---|---|---|---|---|---|
| | | 0 | 1 | 2 | 3 | 4 or More |
| Minneapolis - St. Paul | Detached | - | - | 343 | 420 | 471 |
| | Semi-Detached/Row | - | 298 | 344 | 377 | 420 |
| | Walkup | 216 | 246 | 289 | 394 | - |
| | Elevator | 225 | 258 | 319 | - | - |
| Worthington | Detached | - | - | 300 | 352 | 388 |
| | Semi-Detached/Row | - | 240 | 283 | 331 | 353 |
| | Walkup | 189 | 205 | 242 | 285 | - |
| | Elevator | 242 | 276 | 337 | - | - |

The Fair Market Rents for dwelling units designed for the elderly or handicapped are those for the appropriate size unit, not to exceed 2 bedroom, multiplied by 1.05 and rounded to the next higher whole dollar.

A chart showing all Fair Market Rents for Minnesota is attached as Exhibit A in Section VIII.

7. Income Limits

Eligibility for housing assistance payments under the Section 8 Program is restricted to persons and families whose incomes do not exceed specified amounts. In general, income limits are fixed at 80% of median income ("Section 8 Regular Income"), adjusted for family size, although the program requires that at least 30% of the Section 8 units financed by the Agency be rented to persons with incomes that do not exceed 50% of median for the area ("Section 8 Low Income"). Geographic variations in incomes are reflected in the program since the 50% and 80% of median calculations are based on Census data (updated annually) for each county and SMSA. With five SMSA's and 87 counties in Minnesota, the income limit chart is extensive. The following are some typical examples as of January, 1975. The statewide list is attached as Exhibit B in Section VIII.

| | NUMBER OF PERSONS PER FAMILY | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **SMSA's** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **Mpls.-St. Paul** | | | | | | | | |
| Regular (80% median) | 7,800 | 10,000 | 11,250 | 12,500 | 13,250 | 14,050 | 14,850 | 15,600 |
| Low (50% median) | 4,700 | 6,250 | 7,050 | 7,800 | 8,450 | 9,050 | 9,700 | 10,300 |
| **COUNTIES** | | | | | | | | |
| **Freeborn** | | | | | | | | |
| Regular (80% median) | 5,900 | 7,550 | 8,500 | 9,450 | 10,000 | 10,600 | 11,200 | 11,800 |
| Low (50% median) | 3,550 | 4,700 | 5,300 | 5,900 | 6,350 | 6,850 | 7,300 | 7,800 |
| **Marshall** | | | | | | | | |
| Regular (80% median) | 4,100 | 5,250 | [illegible] | 6,600 | 7,000 | 7,400 | 7,800 | 8,250 |
| Low (50% median) | 2,450 | 3,300 | 3,700 | 4,100 | 4,450 | 4,800 | 5,100 | 5,450 |

Under the Section 8 Program, residents must certify their incomes annually. Following each recertification, resident contributions toward rent and the federal Section 8 payments are adjusted based upon the revised income of the occupant. Section 8 tenants whose incomes rise do not have to move out; they must pay a higher rent based upon the 25% rent/income ratio until they can afford the full market rent for the unit. Similarly, Section 8 residents whose incomes decrease will pay a lower rent and the Section 8 payment will then increase.

Eligibility for apartments is not limited to those whose incomes fit within Section 8 limits. Persons and families whose incomes are above the Section 8 limits pay the normal MHFA market rent (which reflects the savings inherent in MHFA below market financing). Adjusted gross annual family income limits for the MHFA market rent program are as follows:

| | | |
|---|---|---|
| SMSA's | - | $16,000 |
| Minneapolis | | |
| St. Paul | | |
| Duluth | | |
| Rochester | | |
| St. Cloud | | |
| Moorhead | | |
| Outstate | - | $15,000 |

In calculating adjusted gross incomes, for purposes of the MHFA limits, the following items may be deducted from gross annual family income:

a. 5% of family gross income (10% for elderly, i.e. age 62 years or over).
b. Income of family members under 18 years old or full time students.
c. $300 of secondary wage earner's income.
d. $300 per each member of family, excluding head of household and spouse, if said member is under 18 years of age, or, if over 18, has no income included in the family gross annual income calculation.
e. Non-recurring income as determined and approved by the MHFA.
f. Extraordinary medical or other expenses approved by the MHFA.
g. An amount equal to the sums received by the head of household or spouse from, or under the direction of, any public or private non-profit child placing agency for the care and maintenance of one or more persons who are under 18 years of age and where placed in the household by such agency.

With Agency approval, up to 25% of the units in an apartment development may be rented to families above the MHFA income range. This policy is helpful in creating an economic mix of families in the development (see below).

8. <u>Economic Mix</u>

It is readily apparent that an apartment development receiving mortgage financing under the MHFA Program, coupled with housing assistance payments under Section 8, can provide housing for a broad band of incomes. Under such an arrangement, the MHFA Legislative mandate to provide housing for "persons of varied economic means and a wide range of incomes in the same developments and neighborhoods" can be achieved. In addition, the ability to provide for such an economic mix will help assure the housing market of apartments developed under the Program.

9. <u>Site Selection</u>

The critical site selection features necessary to create housing which will be attractive, desirable and economically viable over the entire term of the mortgage include:

a. Accessibility to good schools, shopping, health, recreation and social facilities, and centers of employment;
b. Availability of public transportation;

c. Availability of adequate sewer and water facilities and public utilities;
d. Freedom from serious adverse environmental and site conditions;
e. Location which will enable housing to be successfully marketed at proposed rents.

Many other factors could be cited.

All sites submitted for consideration under the Apartment Development Program will be carefully reviewed for factors listed above as well as other critical factors such as: price, availability of appropriate zoning, compatibility with local and regional growth plans and, in the case of housing to be assisted with Section 8 payments, compatibility with any HUD-approved local Housing Assistance Plan. In addition, apartments financed by the Agency should provide increased housing choices for lower income families and minorities.

These generalities are made much more specific in two exhibits:

a. Minnesota Housing Finance Agency "Project Selection Criteria". These include items relating to site selection as well as a number of broader considerations. (Exhibit D in Section VIII.)
b. Federal regulations governing site and neighborhood standards with regard to the Section 8 Program. (Exhibit C in Section VIII.)

10. Land Control and Zoning

Although evidence of title or adequate land control must be demonstrated before the application will be formally processed, there is no requirement that zoning be obtained prior to the issuance of a Feasibility Letter. Appropriate zoning, however, is required prior to Commitment.

The Agency will evaluate the prospects for obtaining the necessary zoning as well as sewer, water and utility hookups prior to the issuance of a Feasibility Letter. Any written material the developer possesses relevant to these inquiries would assist the staff of the Agency in this review.

11. Land Valuation Policy

Land acquired in excess of two years prior to the time of application will be valued at fair market value based upon an appraisal by a qualified member of the Agency's staff or an independent appraiser hired by the Agency. For land held less than two years, value will be based upon the actual cost of the land to the developer or fair market value, whichever is lower. Thus, for land held less than two years, no appreciation in land value, other than reasonable and necessary carrying charges and improvement costs for the land, will be recognized. In cases where rezoning must be obtained, reasonable attorney's fees may be included (See Legal Fees, Section IV), provided the total land cost does not exceed fair market value.

12. Relationships with Local Community and Regional Development Commissions

In addition to issues such as zoning and utility availability, apartment development involves many other local community considerations. The most recent local consideration is that of compatibility with a local "Housing Assistance Plan" ("HAP"), a requirement created by the Housing and Urban Development Act of 1974. The 1974 Act not only established the Section 8 Housing Assistance Payments Program, it also made available flexible Community Development ("CD") funds for uses similar to those formerly available under urban renewal, model cities, neighborhood facilities, open space, and water and sewer programs. The Act requires, as a condition to receipt of the CD funds, that a local community seeking the funds develop a "Housing Assistance Plan". The HAP must include a consideration of the community's housing supply, its current and projected housing needs, and its goals to meet its identified needs, with special reference to persons of lower income (who would need Section 8 assistance). Since MHFA approval of developments intending to make use of Section 8 funds may be dependent upon the compatibility of the proposed development with a local HAP, close cooperation between the developer, the local community and MHFA may be necessary. Developers are urged to discuss with MHFA, at the earliest possible time, local planning, zoning, and housing needs, as well as probable local receptivity to the developer's housing proposal. A list of communities entitled to CD funding is included as Exhibit E in Section VIII. These communities, in most cases, will develop Housing Assistance Plans.

It should be noted that many communities which may not seek CD funding, nonetheless may have a housing plan, and compatibility of proposed developments with such a plan may be a key factor in MHFA approval. Finally, under the Section 8 Program, even communities without a plan are given an opportunity to comment upon proposals to build apartments assisted with Section 8 funds.

In an effort to determine consistency of housing development proposals with regional comprehensive planning objectives, MHFA automatically provides notification of proposed housing activities under consideration to designated regionwide commissions (such as the Metropolitan Council) called "A-95 Clearinghouses." These regional commissions are given an opportunity to comment upon proposals with regard to consistency with regional plans. Although the commissions do not have veto power over proposals, MHFA takes very seriously any recommendation by these clearinghouses that indicates a proposed development is "clearly inconsistent" with regional planning considerations.

13. Environmental Considerations

Developers planning to be active in the Apartment Development Program must be aware of the environmental implications of their proposed developments. Specifically, each development must adhere to the requirements of:

a. Federal law, including the National Environmental Policy Act ("NEPA"), the Clean Air Act, and Federal Water Pollution Control Act. Included among the normal considerations are potential flooding problems, proximity to vehicular traffic, noise, vibrations, and polluted air, as well as the adequacy of capacity of sewer and treatment facilities and the purity of water supplies. The regulations issued under the various federal laws are complex. Developers should discuss the environmental considerations of their proposed developments with the Agency's Housing Development Officer.

b. State Law, including the Minnesota Environmental Quality Council Act, and the Minnesota Environmental Policy Act. The environmental Quality Council, established in 1973, promotes cooperation and coordination among State agencies on matters significantly affecting the environment. Included within its jurisdiction is the setting of quality standards under the 1973 Subdivided Land Act, including standards affecting water supply, sewage disposal, solid waste disposal and energy conservation. As of this writing, the programs, policies and requirements of the Council continue to emerge. All developers should be aware of the Council and should consult with the MHFA about possible impact of EQA regulations on proposed apartment developments.

14. Short Summary of Application Process

In summary form, the basic elements of the application process are as follows:

a. Prior to Feasibility:

- Initial meeting (developer and MHFA)
- Submission of Preliminary Application and Application Fee - - MHFA Form 201 (developer)
- Site inspection (MHFA)
- Preliminary financial analysis - - Form 202 (developer and MHFA)
- Analysis of qualifications of the developer (Forms 203 and 204), Processing Agent (Form 205), and Architect (Form 206)
- Market analysis (primarily MHFA)
- Analysis of local receptivity of proposal (primarily MHFA)
- Submission by developer of schematic drawings (desirable, but not necessary prior to feasibility)
- Approval of MHFA Board
- Issuance of Feasibility Letter by MHFA

b. Prior to Commitment:

- Application and approval for Section 8 funding (MHFA) (if applicable)
- Submission, review and approval of MHFA Forms 207 - 212

- Submission, review and approval of schematic drawings and documents
- Submission, review and approval of Financial Analysis for a Commitment (Form 202)
- Submission, review and approval of preliminary plans and specifications
- Agreement on construction costs and schedules (Forms 213 and 214)
- Submission, review and approval of Affirmative Action Plan During Construction, and the Pre-Commitment Marketing Plan (Forms 215 and 216)
- Submission of evidence of zoning (developer)
- Approval by MHFA Board
- Issuance of Commitment by MHFA

c. <u>Prior to Initial Closing</u>:

- Completion, review and approval of working drawings and final specifications
- Completion, review and approval of closing documents

d. <u>Prior to Commencement of Construction</u>:

- Sale of MHFA securities (if applicable)

e. <u>During Construction</u>:

- On-site inspections (MHFA)
- Payouts (MHFA)
- Monitoring of marketing and management efforts (MHFA)

15. <u>Processing Time Frame</u>

Agency processing of apartment mortgage loans can be completed within approximately six months from the date of submission of the Preliminary Application (Form 201) to the date of initial mortgage closing. Attainment of this goal requires close cooperation by all parties, and assumes prompt and complete submission and review of all applications, certifications, plans and documents, including architectural, legal, financial, marketing, management, construction and sponsorship material.

Delays in submission, review and adjustment of these items will result in delays in reaching commitment and closing. Common situations which can produce delay include the rezoning process and the preparation of architectural plans and documents. Experienced developers are encouraged to simultaneously work on a number of submission documents whenever possible, rather than prepare and submit materials on a one-at-a-time basis.

16. <u>The Housing Development Officer (HDO)</u>

Processing a mortgage loan on an apartment development can be a complex and time consuming undertaking, involving a number of specialized skills and professionals. In an effort to maintain effective communication and control throughout the process, and to keep things from "falling through the cracks", the Agency places primary production responsibility on its Housing Development Officer (HDO).

An HDO will be assigned to each apartment loan application, and will stay with each case through mortgage processing, closing, construction, and rent-up. The HDO is not merely a "coordinator". Although functioning as a generalist, he will possess one or more specialized real estate skills. The HDO will draw upon the professional skills of many of the Agency's specialists, including those in architecture, construction, management, marketing, appraisal, finance and law. All applications, correspondence, and other submissions to the Agency will be forwarded to the HDO for review and necessary action, including consultation with and action by appropriate staff specialists in various Agency departments. The HDO will schedule and attend all major meetings with the developer and his team, as well as major staff meetings concerning the development. The HDO will be the most knowledgeable person in the Agency concerning the development and will be in a position to identify its strengths and weaknesses.

The critical role and responsibility of the HDO does not mean that decisions are made unilaterally or arbitrarily. Staff decisions regarding an apartment application will be communicated to the developer and members of his team through the HDO, drawing upon staff specialists as needed.

All developers and development team members should thoroughly understand the important role of the HDO and are urged to work closely with the HDO assigned to their application.

17. Processing Agent (Consultant)

Just as the developer's primary contact with the Agency is channeled through the HDO, primary Agency contact with the developer and the development team is maintained through the Processing Agent (Consultant) who is the equivalent of the HDO. The Processing Agent is the developer's representative and is the leader of the development team through all aspects of mortgage processing.

The Processing Agent cannot be a passive collector and forwarder of papers, and since the Agency provides both the construction and permanent financing on a direct loan basis, he is not responsible for "shopping" for financing.

The Processing Agent must offer creative assistance in putting together the real estate package and must be knowledgeable concerning Agency matters, i.e. the Agency bond financing process, the Section 8 requirements, and the process of achieving feasibility and commitment on the development. This is not to suggest that the Processing Agent must generate the data and materials himself; much of this will be prepared by other members of the development team. However, if the Processing Agent is to be effective, he will be familiar with the land, the market to be served, and the economics of the transaction. At appropriate times he may be called upon to justify various aspects of the developer's submission to the Agency including development cost data, operating budget data, real estate tax projections, as well as the proposed market for the development. He will be instrumental in providing appropriate documentation throughout mortgage processing and all written communications will be forwarded through him. The Processing Agent does not supplant the various members of the development team. On the contrary, the Processing Agent coordinates their activities and by his own knowledgeable involvement, assists in the creative process of the entire team, in an effort to produce a superior apartment development.

Although a knowledgeable and careful Processing Agent can be an extremely useful member of the development team, his presence is not mandatory. A developer with indepth experience in the development of apartments who possesses comparable staff skills and staff time availability can designate a qualified staff person as his Processing Agent. Under such circumstances up to 50% of the Processing Agent Fee is payable to the developer for providing such services.

In the case of non-profit sponsors, a Processing Agent (Consultant) is mandatory.

For a discussion of Processing Agent qualifications, scope of services, and acceptable fee levels, see Fee Schedules, Page IV - 3.

### 18. <u>Agency Review of Development Team</u>

An analysis of "what went wrong" when an apartment development gets into trouble will frequently reveal that one of the members of the development team did not do an effective job, or perhaps was not qualified and should not have been expected to do an effective job.

With the high debt/equity ratio mortgages available in the Apartment Development Program, the Agency is a significant risk-taker. Therefore, it must take all reasonable steps to minimize the possibility that a development will get into trouble. This includes an Agency review of the background and other relevant credentials of all members of the proposed development team, including the developer, processing agent (consultant), attorney, architect, management and marketing agent, builder, and accountant. Among the matters to be considered are:

a. <u>Experience</u>. Typical inquiries: Has the proposed attorney successfully handled complex real estate transactions or is his practice devoted to criminal law? Has the architect for the proposed high rise ever designed a high rise apartment building before, or is his experience limited to garden apartments and single family homes? Has the builder successfully built developments of this size before?
b. <u>Record</u>. Have any of the team members experienced significant trouble on previous real estate developments? Have the development team members stood behind their work? Is the work consistently of good quality?

c. Timely Performance. Is each team member's work characterized by on-time performance?
d. Budgetary Performance. Has the architect consistently designed within the available budget; does the builder build within the contract amount or is his work characterized by a blitzkrieg of requests for extra payments?

As an aid in reviewing the background of the professionals, the Agency will employ the federal form "2530" procedure for checking previous multi-family experience, including use of the extensive federal data bank regarding prior experience. In addition, each member of the development team will submit written material establishing his qualifications. (See forms in Section VII.)

In many cases where a development team member may, in the opinion of the Agency, lack essential qualifications, the issue can be solved by a joint venture between the proposed member and someone with additional experience or other background that can augment that of the proposed team member.

19. Mortgageable Costs

The following cost items are includable within total development costs under the Apartment Development Program:

a. Construction Cost, including brick and mortar costs of all residential structures and equipment, parking facilities, site improvements, community and recreational facilities, and office or commercial space, if any; bond premiums; job overhead ("general requirements"); and general office overhead.
b. Fees, including those of the architect (for design as well as supervision), lawyer, processing agent (consultant), and marketing costs.
c. Financing and carrying costs, including interest during construction, insurance, taxes, MHFA financing fees, title and recording costs, and, in the case of non-profit sponsors, working capital (AMPO).
d. Builder and Sponsor's Profit and Risk Allowance (BSPRA).
e. Land, including demolition and relocation costs as well as carrying charges. (See Land Valuation Policy.)
f. Development Cost Escrow.

All of the above items are shown on the Development Cost Schedule (Schedule B of Form 202, Page III - 17.) See Section IV for MHFA "Fee Schedules".

20. Development Cost Escrow

In order to provide long range financial stability for apartment developments, a special reserve account, the "Development Cost Escrow", is established. The DCE, funded out of mortgage proceeds, provides assurance of financial stability in the event the development experiences difficulty during marketing or continued operations. In effect, the DCE constitutes early borrowing, in recognition of the fact that it would be difficult if not impossible to raise capital at a later time (when the development might be in trouble) and assures the ongoing success of the development for the benefit of the owners, investors, and residents.

The size of the DCE is dependent on a number of factors, but generally approximates 4% of the mortgage. The increased mortgage amount is paid for by reducing the maximum 6% cash return on "equity" to 4%. The difference is used as debt service to support the additional borrowing for DCE and, therefore, the DCE does not increase rents. The Agency retains the DCE as a cash escrow and any net interest earned on the reinvestment of DCE funds (after debt service is provided) may be used to increase the developer's return on "equity" to 6%. If the net earnings are inadequate, then the developer will receive less than 6%.

Development Cost Escrow funds may be applied by the Agency, when necessary, to pay current and delinquent operating expenses and principal and interest payments, to maintain the replacement cost reserve and, under certain circumstances, to provide for amenities and design modifications in the interest of improving the marketability or livability of the development. The Agency does not authorize encroachment upon the DCE in lieu of approval of reasonable and necessary rental increases. Developers can anticipate that rent increases will be approved for "expenses beyond the control" of the developer. (See Section 25 on "Rent Increases".) The DCE is intended as a special reserve for use under special circumstances.

### 21. Architectural Review

Following the submission of schematic drawings and documents and thereafter, preliminary plans and outline specifications, extensive review will be conducted by the Agency's architects and engineers. A number of meetings and other informal communications will likely be required between the developer, his architect, the HDO and the Agency's professional staff prior to reaching agreement on the working drawings and final specifications. The Agency's architectural requirements are set out in detail in the Architects' Guide (Section V).

### 22. Affirmative Action Plan

All developments financed by the Agency require submission of and compliance with an Affirmative Action Plan whereby the developer and contractor set forth their plans to assure that employment opportunities will be provided for minority groups in the construction of the development. Included among the material required in this plan is a "manning" table showing the projection of minority group employment in various trades during the various stages of construction. The manning table becomes a part of the construction contract between the mortgagor entity and the general contractor. In addition, plans for the utilization and involvement of minority owned businesses and neighborhood residents will be required.

23. Marketing

During mortgage processing, major attention is given to the physical and financial aspects of the housing development. At the same time, it is necessary to consider some less immediate - - but eventually equally important - - matters such as marketing the units. Selection of a first rate marketing agent is critical, and must be done at this time. The Agency will carefully check the background and credentials of the proposed marketing agent before providing its approval.

One of the first tasks of the marketing agent is the design of a written marketing plan, including overall marketing strategy, timing, content and cost. It can be anticipated that a number of discussions will be held between the developer, his marketing agent, and the Agency's market specialists in an effort to develop an acceptable plan. In addition, development of an Affirmative Marketing Plan is necessary which details efforts to be undertaken to attract minority group tenancy.

24. Management Agent

Selection of the management agent is critically important to the success of the development and is subject to the approval of the Agency. The Agency will carefully check the background and credentials of the proposed management agent before providing its approval.

It is intended by the Agency that each development it finances be well run and well maintained. For this reason, the management agent must execute a management agreement prior to the commencement of the management activity. Periodic reviews of actual performance of the management agent will be conducted by the Agency's management specialists. The management agent may also be retained as marketing agent if he has acceptable experience in apartment marketing.

25. Rent Increases

As part of the Agency's continuing review of operating developments, the developer is required annually to present the Agency with a proposed operating budget for the following year. If warranted for reasons "beyond the control of the developer", e.g. increasing fuel costs or higher real estate taxes, etc., the Agency may approve rent increases in an amount sufficient to cover the costs of an approved operating budget. In reviewing a proposed operating budget, the Agency will consider the adequacy of the prior year's operating costs, variations in the costs of maintenance and operations, vacancy levels, the Agency's experience with other developments, and the market position of the development in relation to other competitive housing developments.

In the case of units receiving housing assistance payments under the Section 8 Program, certain increases in operating expenses will be routinely approved based upon an automatic annual adjustment factor determined by HUD. Such increases in operating expenses will result in increased Section 8 payments. Resident rents (which are based on 25% of income) need not be increased to cover the increased operating costs. In addition, operating cost increases that result from substantial general increases in real estate taxes or utility costs may be covered by a special rent adjustment approved by HUD on those units subsidized by Section 8 assistance payments.

It should be noted that during rent-up and the early stages of operations, Section 8 increases might not be available and MHFA market rent budgets might not be approved for an increase. Thus, it is possible that operating loss deficits may be incurred and funded out of the Working Capital Reserve deposited in escrow by the developer. (See Section 39, Working Capital.)

## 26. Interest Rates and Their Effects on Rents

Mortgage payments constitute about 60% of the full market rent in an MHFA development, with the bulk of the mortgage payment allocated to interest. As indicated above, MHFA generally sells its long term bonds after completion of construction. Therefore, the permanent interest rate and the apartment rents are not firmly fixed until that time. During mortgage processing the Agency staff projects the probable mortgage interest rate (and resulting rents) based upon the current rates and general trends of the tax exempt bond market. In the event Agency bond interest rates change, mortgage interest rates will also change. Under this circumstance, the Agency is prepared to adjust the approved rental schedules for its developments. If interest rates go up, rental increases can be approved, although ultimate marketability of the units may dictate that rental rates not be immediately increased. If interest rates go down, rent reductions can be approved.

## 27. Nature of MHFA's Notes and Bonds

The Agency obtains its mortgage money by borrowing, i.e. it sells notes and bonds to interested investors. The notes and bonds issued by the Agency are revenue obligations of the Agency only. They do not involve a pledge of the general credit of the State of Minnesota. The source of payment on the Agency's bonds is the mortgage payments made on the developments. The monthly mortgage payments are one-twelfth of the yearly payment necessary to amortize MHFA's bonds; mortgage loans are generally made for a 40 year term.

## 28. Mechanics of Financing

After agreement has been reached on the essential elements of the development, including the preliminary architectural plans and specifications, construction costs, operating expenses, and rents, a recommendation will be made by the staff of the Agency to the Board that the loan be approved. Following Board approval, a Commitment is issued indicating a loan will be made and securities sold to finance construction. The Commitment, however, remains subject to the Agency's ability to sell its notes and bonds on terms acceptable to the Agency.

Bond Anticipation Notes are used to provide interim financing. These notes, generally of one to two year maturities, may be "rolled over" periodically for up to 10 years. The Agency will generally issue bonds for the permanent financing of the development after the completion of construction. The timing of all securities sales will be determined by the Agency, depending upon market conditions.

## 29. Transfers of Ownership

Transfers in ownership of developments financed by the Agency are allowed, subject to prior written approval of the Agency. Because of the critical importance of the quality of ownership to the success of the development and the Agency's security in the underlying property, the Agency reserves the right to accept or reject such proposed transfers. Owners are cautioned to review carefully the tax consequences of such transfers of ownership.

## 30. Prepayment of Mortgage Loans

MHFA will approve the prepayment of the mortgage and removal of the apartments from the MHFA program, without penalty, provided that the mortgagor pay any call premium then due upon the outstanding MHFA bonds which were issued to finance the development and any other costs articulated in the mortgage note.

Section 8 housing assistance payments contracts may be terminated at the option of the mortgagor at each 5 year anniversary date.

## 31. Relationship with Federal Subsidy Programs and MHFA

As noted above, developments financed on a direct loan basis by the Agency are eligible to receive Section 8 housing assistance payments even though such developments are not federally insured. This amounts to a piggy-back arrangement with MHFA providing mortgage financing and the federal government providing rental subsidies so that lower income families can afford to live in the housing. The federal government has specifically allocated Section 8 funds to be used in connection with MHFA financed developments. As MHFA developments proceed through the various mortgage processing stages, MHFA submits documentation to HUD and obtains specific approval to use part of its Section 8 allocation on a specific development. MHFA handles all HUD liaison in securing Section 8 assistance. It should be noted that FHA mortgage processing is not involved. Although HUD reviews MHFA request for Section 8 assistance, MHFA functions as the "bank" and makes the direct mortgage loan. MHFA further makes site inspections, determines feasibility, reviews and processes plans, inspects construction and completes the general underwriting of the mortgage loan application.

Although MHFA operates its own Apartment Development Program on a direct loan basis, the Agency can (and has) provided mortgage loans on FHA insured apartment developments. This program is separate and distinct from that described in this "Apartment Development Handbook".

## 32. Negotiated Construction Contracts

Negotiated construction contracts are permitted by the Agency. However, MHFA will do cost estimating of its own and will investigate the experience and financial ability of the proposed general contractor.

## 33. Cost Certification and Savings

The developer and general contractor will be entitled to payment out of mortgage proceeds only for amounts actually expended for construction and other development items. The developer and general contractor must certify to the Agency that the amounts for which they are requesting payment were actually expended. This is called cost certification.

To the extent that there are savings in actual construction costs, the general contractor may share in such savings or have them applied to an increase in quality or marketability of the development. When the latter is done, there is no increase in the total construction contract price for the development, but the additional cost is approved for cost certification purposes. The Agency will permit no more than one-half of the construction savings - - up to a maximum of 3% of the construction amount - - to be retained by the contractor. The remaining savings will be applied to additional amenities or improvements, or to fund necessary reserve accounts.

## 34. Prevailing Wages

The Agency requires that any workman employed in the construction of any development financed by MHFA be paid not less than the prevailing wage in that locality in conformance with prevailing wages as determined by the Department of Labor.

## 35. Payment and Performance Bonds

All general contractors must provide 100% bonds covering payment and performance for labor and materials. Reasonable allowances for bond premiums are provided in the development budget. In lieu of 100% payment and performance bonds, contractors may substitute a 25% irrevocable letter of credit at the discretion of the Agency.

## 36. Construction Inspection

MHFA will conduct on-site inspections of the development throughout the construction process.

## 37. Payout Process

The Agency will make monthly progress payments to developers as construction progresses. Payout requests are reviewed by the Agency's construction administrator, finance director, and attorney. Payments are made on the basis of work in place plus materials properly stored on the job site, less 10% retainage.

## 38. Permanent Supervision

The Agency will continue to monitor the management of all developments to assure that developments are maintained and operated in accordance with Agency standards and that safe, sanitary and attractive housing is provided throughout the term of the mortgage.

### 39. Working Capital

Limited dividend developers are required, at the time of initial closing, to establish a working capital escrow account, funded with cash or an irrevocable unconditional letter of credit, in an amount equal to 3% of the mortgage. To the extent that interim income, rents, or funds of the developer are not available, the escrow can be used by the Agency to cover contingencies during construction and operating deficits during the rent-up period and for up to three years after the date of final closing of the mortgage loan. The working capital requirement decreases with time, after final closing; 3% during the first year; 2% during the second; and 1% during the third year. If the funds have not been otherwise used, up to one-third of the cash escrow or letter of credit is returned to the developer on each anniversary date of the final closing of the mortgage loan. Similarly, in the event the escrow is depleted, in whole or in part, at or prior to final closing, the developer is obligated to restore the escrow to its original level.

### 40. Interim Income

Developers who are efficient in their building operations are in a position to generate interim income through early completion and rent-up of units.

Subject to Agency approval, net interim income may be used to pay for betterments, purchase of equipment (e.g. for grounds maintenance or lobby furniture, etc.), additional marketing expenses, or the establishment of reserves. The Agency may also approve such uses of interim income for needed resource to assure fiscally sound operation of the development.

### 41. Mortgage Credit Standards

Although the Agency's high debt/equity ratio mortgage automatically makes the Agency a significant risk-taker, the presence of the working capital reserve and escrow account, and the development cost escrow (DCE) afford the Agency protection in the event of unforeseen difficulty in construction, rent-up or occupancy.

As useful as such escrows can be during a period of stress, the best long range assurance that the Agency's mortgage loan will be repaid is the overall financial strength of the mortgagor, and, therefore, the Agency will carefully consider the mortgagor's financial and credit standing. (i.e. shell corporations organized for the sole purpose of acting as the general partners are generally unacceptable.)

At this time, specific mortgage credit standards are being developed, and will include requirements of net worth and liquid assets of the developer, as adjusted by factors such as the size of the development; and prior apartment development and management experience.

In those cases where the developer's credit is inadequate, opportunity will be provided for the developer to secure additional partners or investors who could add to the net worth of the mortgagor entity.

42. Tax Abatement

Pursuant to Section 273.13, Subd. 17 (a)(b), all apartments financed under the Minnesota MHFA law receive a 50% tax abatement. The abatement is available automatically. Complex application and approval procedures are not necessary although appropriate notice must be provided to county assessors. The availability of tax abatement can be a key element in establishing financial feasibility. In many cases the absence of tax abatement would result in little or no apartment construction.

## D. SOME KEY FINANCIAL CHARACTERISTICS - - A COMPARISON WITH OTHER TYPES OF FINANCING

### 1. The Fundamental Similarities and Differences

The purpose of this subsection is to briefly set out the chief areas of similarity and difference between the Agency's Apartment Development Program and other methods of real estate financing. The Agency's program has similarities to the new HUD Section 8 Program and to the older FHA Section 236 and other multi-family programs. Those who are aware of these programs can quickly see the similarities: the 90% loan to limited profit sponsors, the limited return on equity, 10% BSPRA, income limits, and Agency approval of rent increases. Unlike the HUD-FHA, which is not a mortgage lender, the Agency makes direct mortgage loans with funds it obtains from the sale of its tax exempt notes and bonds. In contrast, mortgage financing for a HUD-FHA insured loan must be obtained from a third party mortgage lender such as FNMA, a life insurance company, R.E.I.T. or a State Housing Finance Agency.

For those more familiar with conventional financing models, there are several important differences between conventional financing and the Agency's program. The following characteristics of the Agency's program are not usually found in conventional financing: (1) Agency provides both interim and permanent loans; (2) mortgage amount determined by total development cost; (3) high ratio (90%) loan-to-value mortgage; (4) 40 year loans rather than 20 to 30 year financing; (5) higher degree of regulation of developer including: limitations upon developer profit, limitations upon tenant incomes, significant architectural review by Agency, limitations on refinancing, and Affirmative Action and Equal Employment Opportunity requirements; (6) an indefinite interest rate on the permanent loan until bonds which provide the funds for the loan are sold.

The conventional permanent lender - - generally an insurance company or a bank - - in determining the mortgage amount it is willing to lend on real estate development is concerned primarily with "appraised value". This is generally determined by capitalization of the income generated and not by the cost of the development. When available, conventional loans on rental properties are generally made at 75% to 80% of appraised value. During period of tight money supply, conventional loans frequently include "equity" kickers".

Under the Agency's program, the mortgage amount is a function of the actual cost of the development. The mortgage amount available to limited profit developers is 90% of the total development cost. Most of the components of development costs are either cost certified, based upon fixed percentages of cost certified amounts, or fixed amounts. Cost certification is used in part to insure that the developer does not receive a mortgage which is larger than 90% of the development cost.

Conventional loans generally have a 20 to 30 year mortgage term, although there is an increasing trend to shorter term loans with a balloon payment at the end of the term. Under the MHFA Apartment Development Program, 40 year loans are generally available.

Another difference can be found in the various controls which are placed on the development by the Agency. One is that the profit motivated developer is limited on the return on equity (See Development Cost Escrow, Page II - 16, and Return on Equity, Page II - 26, for a more detailed description of the equity return). Equity, however, is a computed amount which is generally greater than cash invested. (See Annual Cash Distribution, Page II - 26.)

There are also income limits imposed on prospective tenants of the development. Because the tax exempt financing mechanism will result in rents that are lower than those which can be achieved by conventional financing, income limits are imposed to insure that those families for whom the financing resource was intended by the Legislature actually receive it. It should be noted, however, that the Agency's income limits are higher than those associated with federal subsidy programs. In addition, in an effort to achieve balanced residential communities with a broad economic spectrum, up to 25% of the units in a development may be rented without limitation as to family income. (See Income Limits, Page II - 7.)

Another variation from the conventional method of financing is in the more extensive nature of the Agency's architectural review process. The Agency reviews schematic drawings, preliminary plans, specifications and working drawings. Meetings between the developer's architect and MHFA staff are frequently necessary to discuss issues raised by the architectural review.

Refinancing of MHFA loans is another area subject to limitation by the Agency. As discussed in detail above (See Prepayment of Mortgage Loans, Page II - 20), MHFA mortgage loans can be prepaid and removed from the MHFA program only if the mortgagor pays any call premium on the underlying Agency bonds and other obligations contained in the mortgage note. Conventional loans are generally subject to prepayment, although sizeable prepayment penalties are frequently incurred.

There are two additional variations related to interest rates. Under the Agency's program, both the interim and permanent interest rates are generally lower than conventional sources because the funds for the loan are generated through the Agency's sale of tax exempt bonds and notes. The interest rates charged by the Agency are those which it is required to pay on its sale of bonds and notes to which is added a fee, generally 1/2% of the original mortgage amount, to cover the costs of administering the program. As a consequence, the developer using Agency financing does not know the permanent mortgage interest rate until the Agency sells its bonds. Although the exact rate is not known, the range of rates can be predicted and should be, in any event, lower than those available from conventional sources. (See Interest Rates and Their Effects on Rents, Page II - 19.) The conventional lender and FHA, of course, will normally commit to a fixed interest mortgage rate at the time of initial closing.

Under conventional financing, the developer generally obtains the construction loan from a mortgage banker, a commercial bank, or a real estate investment trust ("REIT"), and the permanent mortgage loan from an insurance company or bank. However, the conventional permanent lender generally will "holdback" a portion of the mortgage loan proceeds until the development achieves a level of occupancy sufficient to cover operating costs and debt service. Thus, the permanent lender has some protection against failure of rent-up. Under the Agency's Apartment Development Program, the Agency bears much of the risk that the development will not rent-up, since it makes both the construction loan and the permanent mortgage loan with no rent roll holdback. In the Agency's view, the risk is cushioned somewhat by the developer's Working Capital Reserve (See Page II - 22). In the case of units receiving subsidies under the Section 8 Program, this risk is reduced because of the high marketability of such units.

Finally, the Agency, under federal and State regulations, requires developers to take affirmative action in the construction and marketing of the development to provide equal employment, business and housing opportunities for minority group members.

In sum, there are many favorable features in the MHFA Apartment Development Program, but there are also a number of areas of greater restriction in comparison to conventional loans.

2. <u>Profit Potential - - Rate of Return</u>

The rate of return to an investor in a limited profit development financed by MHFA is a function of the combined effect of annual cash distribution ("return on equity") and tax savings. Prospective developers are encouraged to discuss these matters with their tax and financial advisors. The discussion below is provided only for illustrative purposes and should <u>not</u> be relied upon as though it was an actual case study:

a. Annual Cash Distribution ("Return on Equity")

The maximum rate of cash distribution permitted under the Apartment Development Program is 6% of developer's "equity".1/ However, "equity" is not the same as "cash invested". It is defined as 10% of the total development cost. Included in "total development cost" is a Builder/Sponsor Profit and Risk Allowance ("BSPRA") (Refer to Page IV - 1) which is equal to 10% of the sum of construction costs, professional fees, and carrying and financing charges (all of the allowable development expenses exclusive of land).

The following example shows how the developer's cash invested can be much less than his "equity" by crediting his Builder/ Sponsor Profit and Risk Allowance to the equity requirement.

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1/ See Development Cost Escrow (Page II - 16) and Return on Equity (Page II - 26) for details of actual 4+2% cash return.

| | Components of Total Development Cost | Cash Expenditures |
|---|---|---|
| Construction Costs | $ 1,625,000 | $ 1,625,000 |
| Professional Fees | 115,000 | 115,000 |
| Financing and Carrying Charges | 118,000 | 118,000 |
| Builder/Sponsor Profit and Risk (BSPRA) | 185,000 | |
| Land | 90,000 | 90,000 |
| | + | + |
| Total Estimated Development Cost | $ 2,133,000 | |
| Total Cash Invested | | $ 1,948,000 |
| Equity Requirement (10% of Total Development Cost) | $ 213,000 | |
| Mortgage (90% of Total Development Cost) | $ 1,920,000 | |

The sum of construction costs, professional fees, and financing and carrying charges is $1,858,000; Builder/Sponsor Profit and Risk is 10% of that amount, or $185,000.

Cash actually invested is determined as follows:

| | | |
|---|---|---|
| Cash Expenditures | $ 1,948,000 | |
| Mortgage (90%) | $ 1,920,000 | |
| Cash Invested | $ 28,000 | plus $57,600 (3% of mortgage as Working Capital, in the form of cash or a letter of credit (See Page II - 22), which if not needed will be returned to developer. |

Of course, prior to final closing of the mortgage loan the developer may have more cash invested in the development than was calculated above because of retainages by the Agency. Also, the sponsor may need additional cash in the following instances:

(1) There are unexpected construction costs.
(2) Land value may appraise at less than cost.
(3) Expenditures for legal, architectural, processing agent or for other items exceed the allowances provided in the development budget.
(4) There are expenditures which are not included in total development cost such as developer's overhead (as opposed to builder's overhead), including accounting costs.
(5) Interim income is not sufficient to cover expenses during the rent-up. (See Interim Income, Page II - 22.)

(6) The builder and sponsor are not the same, and the sponsor, therefore, must pay the builder's profit,

(7) Costs are incurred for letters of credit for meeting the Working Capital requirement (See Working Capital, Page II - 22.)

Thus, the maximum cash return on equity to the developer/mortgagor appears larger if measured against actual cash invested, rather than "equity". But since cash invested may also be greater than that shown in the example above, the return on actual cash invested cannot be projected in advance with any real degree of accuracy.

b. Tax Savings

Although the tax savings generated by investment in MHFA developments will vary widely with the individual circumstances of each investor, they are frequently substantial. Each investor should consult with his counsel to determine the effects of investment in MHFA housing with respect to: accelerated depreciation (double declining balance, sum-of-years-digits), depreciation recapture provisions, construction and mortgage interest expense, and other expense items related to construction and rent-up.

It should be noted that some of these benefits will expire at the end of 1975 unless extended by Congress. In addition, it is widely expected that Congress will enact significant other changes with regard to depreciation, accounting and taxation of real estate. Accordingly, investment decisions based on current income tax laws should be carefully considered and continuously reviewed in the light of changing circumstances.

# III. APPLICATION PROCESS

## A. THE BASIC STAGES AND TIMING

There are three basic stages in the processing of applications for mortgage loans. *The first is from initial contact to the issuance of a Feasibility Letter*. This stage is devoted to evaluating the basic features of the proposal, the site, certain members of the development team, the housing market, projected construction and development costs, and rents. It can usually be completed within six to eight weeks.

*The second stage consists of those steps from Feasibility to Commitment*. This period is primarily devoted to the production of acceptable architectural plans and detailed estimates of cost, expenses, and rents. Although the time required for this period can vary widely, three to four months should be adequate in most cases.

*The third stage involves those steps from Commitment to Initial Closing*. This stage is devoted to completion of architectural plans and legal documents required in order to achieve an initial closing. The time frame for this stage depends on the production capability of the architect and lawyer.

The entire application process from the Initial Meeting to Initial Closing can be achieved in approximately six months.

Every effort is made to process applications as quickly as possible and to keep the developer informed of Agency decisions at each step in the application review. Developers are encouraged to propose processing schedules which are tailor-made to their individual needs. For experienced developers, telescoping of time schedules by the performance of several tasks at once can result in substantial time saving in processing.

The Agency assigns a Housing Development Officer to act as liaison between the developer and the Agency. This Development Officer also oversees the efforts of the various MHFA staff members involved in the application process. (Refer to Page II - 13.)

## B. SIGNIFICANCE OF FEASIBILITY AND COMMITMENT

A Feasibility determination is based upon a preliminary evaluation and approval by the Agency with respect to the basic features of the proposal, the site, certain members of the development team, the housing market, construction and development costs, and marketable rents. (Refer to Sample Feasibility Letter starting on Page III - 12.) There generally has been no detailed review of architectural plans, construction costs, or operating expenses during feasibility processing. A Feasibility Letter is *not a commitment* by the Agency to finance the development.

A Commitment, on the other hand, is a formal statement by the Agency of its willingness, subject to stated conditions, to make both a construction and permanent mortgage loan for the development based on detailed plans and specifications, costs, expenses, and rents. (Refer to Commitment Letter starting on Page III - 25.)

The chief areas which must be approved by the Agency prior to Commitment are:

1. Architectural plans, including specifications.
2. Land value, construction costs, and other development costs.
3. Operating expenses and rents.

Although some issues, financial inputs, or other items may not be completely fixed or settled at the time of Commitment, the standards by which they may be resolved are *firmly established.*

Other matters which are not resolved by Feasibility but which must be completed prior to Commitment include but are not limited to:

1. Approval for Section 8 funding.
2. Environmental protection reviews.
3. Approval of rezoning, if necessary.

C. STEPS LEADING TO FEASIBILITY

For developers unfamiliar with the Agency's Apartment Development Program, including its mortgage processing requirements, it may be desirable to arrange an Introductory Meeting with the Agency in order to discuss in general the features of the Program, processing requirements and other related matters. This meeting does not have to focus on a specific site and proposal.

The Initial Meeting is a working session at which time the Apartment Development Program, as well as the specific elements of the developer's proposal, are discussed in detail. The discussion generally touches upon: the proposed development team; the site; its physical characteristics; ownership and zoning; surrounding land uses; the concept and basic characteristics of the proposed development; the housing market for the development; the projected construction costs; and the use of federal subsidy assistance (Section 8). Problem areas regarding the Agency's program may be answered at this time. Based on the meeting, the developer is either encouraged or discouraged by the Agency to submit an application for a mortgage loan.

Prior to the Initial Meeting the developer should receive and review a copy of this Handbook. The developer is encouraged to provide the staff of the Agency in advance of the meeting with any maps, written reports, studies, sketches, rough number work or other helpful information with respect to the proposal.

The major steps in the review process subsequent to the Initial Meeting but prior to Agency decision to issue a Letter of Feasibility are the following:

1. Submission of the Preliminary Application (Form 201) and the Application Fee (developer)
2. Site inspection (MHFA)
3. Preliminary Financial Analysis -- Form 202 (developer and MHFA)
4. Market Analysis (primarily MHFA)
5. Analysis by MHFA of the qualifications of the developer (Forms 203 and 204), Processing Agent (Form 205), and Architect (Form 206)
6. Analysis of local receptivity (primarily MHFA)
7. Submission by developer of schematic drawings (desirable, but not necessary prior to feasibility)
8. Approval of MHFA Board
9. Issuance of Feasibility Letter by MHFA

The following material discusses these steps in greater detail.

1. Preliminary Application (Form 201) and the Application Fee

Following the Initial Meeting, the next step in the application process is the developer's preparation and filing of the Preliminary Application, MHFA Form 201, with supporting exhibits, and the Application Fee of $15 per dwelling unit (Refer to Page IV - 6). This Form is a general description of the proposed development. The Agency recognizes that much of the information provided in Form 201, particularly the figures on rental charges and projected costs may be subject to modification.

A Sample Form 201 follows. The names and amounts used in the Sample are only examples. They are not to be taken as acceptable benchmarks, amounts or ratios. They are included for illustrative purposes only.

MHFA FORM 201
2/75

DEVELOPMENT NO. ML-U

DATE 1/14/75

FORM 201 PRELIMINARY APPLICATION
MINNESOTA HOUSING FINANCE AGENCY
APARTMENT DEVELOPMENT PROGRAM

| Developer | | Development | |
|---|---|---|---|
| Name | John Q. Smith Developments, Inc. | Name | Pine Manor |
| Address | 101 East Drive | Address | 95th Avenue |
| City | Bigtown, Minnesota Zip 55101 | City | Smalltown |
| Telephone | 428/244/2424 | County | Western |

I. BASIC INFORMATION ( ✓ where appropriate)

X New Construction 100 % Family X Rental X Limited Profit

___ Rehabilitation ___ % Elderly ___ Co-operative ___ Non-Profit

II. DEVELOPMENT TEAM

(Provide name, address and telephone number)

Processing Agent (Consultant): First Time Mortgage Co., 414 E. 2nd Avenue, Bigtown. 55002 428/246/8340

Attorney: Lawyer and Lawyer, 210 South Main St., Bigtown 55002, 428/422/6217

Architect: Robert Design, A.I.A., 2660 Elm St., Smalltown 55201, 428/855/1110

General Contractor: Smith Construction Co., 1640 Oak St., Smalltown 55202, 428/855/2345

Marketing-Management Agent: Not selected

Other (specify): ___

III. DEVELOPMENT DESCRIPTION

| Number of Units | Type of Buildings | Number of Buildings | Number of Stories |
|---|---|---|---|
| 80 | Garden Apartments | 3 | 2 |
| 20 | Townhouses | 3 | 2 |

| Unit Type | Number | Approximate Size (Net Rentable Sq. Ft.) | Projected Rent | Cost of Utilities Paid by Occupant |
|---|---|---|---|---|
| Eff. | | | | |
| 1 BR | 50 | 725 | $ 221.00 | $ 12.00 |
| 2 BR | 30 | 950 | $ 245.00 | $ 15.00 |
| 3 BR | 15 | 1,150 | $ 280.00 | $ 18.00 |
| 4 BR | 5 | 1,350 | $ 296.00 | $ 21.00 |
| 5 BR | | | | |
| TOTAL | 100 | | | |

Utilities to be paid by Occupant: Household electric, including air conditioning

No. of Parking Spaces: Covered 40 ($ 12.00/mo.) Surface 110 ($ -0- /mo.)

Rental Space Included: 1. Commercial ___ sq. ft. ___ Est. Income/yr.

2. Professional ___ sq. ft. ___ Est. Income/yr.

IV. SITE INFORMATION

Attach:
1. General location map identifying the site, nearby shopping and competitive developments.
2. Sketch plot plan of site, indicating dimensions (or survey).
3. Option, Contract to Purchase, Deed or other interest in land.

A. Dimensions: 597 ft. by 715 and/or 9.8 acres

B. Present zoning classification: R-1 ( 4 units/acre)

(XX) Rezoning is contemplated to obtain a classification of R-3 ( 12 units/acre).

( ) No rezoning is necessary.

( ) Other zoning adjustments required (specify) ______

C. Describe the physical characteristics of the site (shape, terrain, foliage, structures on site, etc.).

Completely flat and buildable; many mature pine trees at north edge; no structures presently on site; rectangular shape; refer to attached surveys.

D. Unusual Site Features (✓ if yes): None

| | | | |
|---|---|---|---|
| ______ | Flood Plain | ______ | Poor Drainage |
| ______ | Within 300 feet of Railroad | ______ | Creek, Lake, etc. |
| ______ | High Tension Wires | ______ | Fills |
| ______ | Steep Ravines or Grades | ______ | High Water Table |
| ______ | Rock Formations | ______ | Unstable Soil |

List Others: None

E. What are the adjoining land uses (north, south, east and west)?

North - Undeveloped
South - Single family residential
East - Arterial street with convenience retail uses and undeveloped land further east
West - Single family residential and small apartment buildings

F. Discuss access to commercial facilities. (Identify specific facilities nearby by type of store and location on map).

Convenience grocery store and drug store adjacent to site; neighborhood shopping center two blocks away; 3/4 mile from downtown shopping.

G. Discuss access to public transportation.

Bus stop one block from site; John Q. Smith Developments, Inc. will seek route change to get bus stop at front entrance.

H. Utilities: Discuss the location of utility lines relative to the site and their availability (water, sanitary and storm sewers, gas, electric).

All utilities available on site; lines for all utilities are immediately adjacent to or present at site.

I. Sewer:. State the name and current percentage of capacity of the sewage treatment plant that will serve the development.
Smalltown Municipal Sewage Plant; 68% of capacity; no EQC problems anticipated

J. Describe heating and air conditioning fuel.
Heating - Gas
Air Conditioning - Electric

V. HOUSING MARKET INFORMATION

A. Discuss the current demand for competitive units in the area, and indicate the rental levels of existing units in the area. (Identify specific developments by name, address, telephone number and location on map.)

| MAP I.D. # | DEVELOPMENT | ADDRESS/PHONE | SIZE | 1 BR | 2 BR | 3 BR | VACANCIES |
|---|---|---|---|---|---|---|---|
| #1 | Glendale Apartments | 4220 93rd Ave. 428/852/5621 | 60 units | $190 | $220 | - | None |
| #2 | Wilson Gardens | 9701 Wilson St. 428/852/4627 | 120 units | $195 | $230 | $275 | 4% |
| #3 | Evans Park Apartments | 9340 Webster St. 428/853/8654 | 100 units | $200 | $235 | $280 | 2% |

Market demand for 1 bedroom units extremely strong -- no vacancies. More detailed information can be obtained at the Agency's request.

B. Describe the population group (market) to be served by the development.

Emphasis will be placed on attracting young moderate and middle-income families, primarily without children. Also, some student and faculty occupancy can be expected since Smalltown Community College is 1/2 mile from the site.

VI. PROJECTED COSTS

| | Cost For Entire Development | Cost Per Unit | Cost Per Gross Sq. Ft. |
|---|---|---|---|
| A. Land (including off-site work): | $ 65,000 | $ 650 | $ 0.15 |
| B. Net Construction Cost (excluding general requirements, overhead and profit, including site work, gross sq. ft. 112,800*): | 1,478,000 | 14,780 | 13.10 |
| C. Estimated Annual Taxes after Completion: | 30,000 | 300 | |

*Includes 8,000 sq. ft. for garages and 800 sq. ft. for community building.

VII. TYPE OF CONSTRUCTION AND AMENITIES

A. Describe type of construction. Wood frame, slab on grade, brick veneer combined with rough sawn cedar.

B. Amenities (✓ where appropriate)

- X Ranges
- X Refrigerators
- X Disposals
- X Dishwashers (not in 1 BR & 50% of 2 BR units)
- X Carpeting
  - X Units
  - X Public space
- X Master TV antenna
- X Laundry machines on-site (outside unit)
- X Security system (specify features) In garden apartments, locked lobby doors with buzzer intercom system
- X Landscaping (specify budget) $20,000

- X Vanities in bathrooms
- X Exhaust fans (kitchen & bathroom)
- X Balconies or patios - 40 % D.U.'s
- X Air Conditioning (specify system)

  Sleeves and units

- X ~~Drapery and~~ rods
- X Plumbing for laundry machines in unit 3 and 4 BR only
- X Community building or room ( 800 sq. ft.)
- X Play lot
- ___ Swimming pool
- ___ Tennis
- ___ Storage outside unit
- X Head bolt heaters

List other amenities: ______

## VIII. OTHER INFORMATION

A. ___ Yes X No Has this site been submitted to the Federal Housing Administration, any other governmental agency, or a private lending institution? If so, explain status on separate page.

B. X Yes ___ No Is the use of Federal subsidies desired -- Section 8 Assistance for lower income households? 50 % of total units.

C. ___ Yes X No Is the development in an urban renewal area?

D. ___ Yes X No Does site development involve relocation? If so, the number of families to be relocated is _______ and businesses is _______.

E. If rehabilitation is contemplated: Not applicable

___ Yes ___ No Will present plumbing be replaced?
___ Yes ___ No Will new electric service be installed?
___ Yes ___ No Will the roof be replaced?
___ Yes ___ No Will the present room layouts be significantly altered?
___ Yes ___ No Will new kitchens be installed?
___ Yes ___ No Will new bathrooms be installed?
___ Yes ___ No Will the heating system be replaced?
___ Yes ___ No Will new flooring be installed?
___ Yes ___ No Will new windows be installed?

Attach: Brief narrative of rehabilitation work to be accomplished, including exterior work.

## IX. OTHER RELEVANT INFORMATION

Schematic plans attached. Preliminary zoning hearing has been held, and rezoning should be accomplished within four to six weeks. Smalltown does not have a Housing Assistance Plan; local opposition to the proposed development is not anticipated.

The foregoing information is, to the best of my knowledge, true, correct, and complete. Attached is an Application Fee of $ [illegible]500 ($15/dwelling unit).

Sponsor: John Q. Smith Developments, Inc.

Date: 1/14/75 By: John Q. Smith

Please Attach:
1. General location map identifying the site, nearby shopping and competitive developments. Exhibit A
2. Sketch plot plan of site, indicating dimensions (or survey). Exhibit B
3. Option, Contract to Purchase, Deed or other interest in land. Exhibit C
4. Brief narrative of rehabilitation work.
5. Application Fee. (Check attached)

### 2. Site Inspection

The site inspection will deal with the following: physical characteristics of the site (i.e. topography, type of soil, existing structures on the site); character of the surrounding property and community; location and quality of schools, shopping, public transportation, employment centers and community facilities; availability of utilities and water and sewage treatment facilities; and the suitability of the site for the proposed housing. Sites for elderly and Section 8 assisted proposals will be reviewed on the basis of Agency and federal standards. (Refer to Exhibits C & D in Section VIII.)

In addition, the rentals, room sizes, and amenities of competitive developments in the market area may be examined on a preliminary basis at this time.

After the Agency's site inspection and analysis, the developer is informed that either:

a. Based on a preliminary analysis, the site is acceptable and the developer is requested to submit Forms 202 to 206 (described below);
b. The site is unacceptable and further processing is not possible; or
c. The site is acceptable if potential problems with the site or proposal can be eliminated. In some cases, processing will not proceed until acceptable solutions to the problems are offered and approved.

### 3. Preliminary Financial Analysis - Form 202

After the site is approved, the Preliminary Financial Analysis is prepared to obtain the estimated mortgage amount and rents for the proposed development. For developments where unsubsidized, market rate occupancy is proposed, the rents projected must be competitive with other rental units in the area; they must also be low enough so that families whose incomes are within the MHFA income limits (See Page II [illegible] l both be able to afford and be willing to pay them. For deve[illegible] where Section 8 assistance is planned, the rents may not exc[illegible] maximum rents (Fair Market Rents) permitted under the Section 8 Program (See Exhibit A in Section VIII.)

The development budget and operating budget are based in part upon submissions by the developer and in part upon analysis by Agency staff. A comparison is made between the developer's estimates of construction cost and the data which are available to the Agency from previous financings, material obtained from other lenders, construction cost indexes, consultants to the Agency, and the experience of the professional staff. Estimates are made of the expenditures for professional fees and carrying charges taking into consideration the developer's estimates and the MHFA Fee Schedule (See next section).

For purposes of the preliminary economic analysis, the developer's statement of land value is accepted. The land value, however, will be adjusted should the subsequent appraisal indicate that the developer's statement is either inadequate or excessive.

Interest and amortization on the projected mortgage are calculated and based on an estimate of the Agency's bonding rate.

Other estimates of annual expense items including operating and maintenance expenses, real estate taxes, vacancy allowances, and reserves are based upon the developer's submissions and the Agency's experience. The Form 202 (See Pages III - 16 to III - 21) provides the format for the analysis.

This form is initially prepared by the developer and is subject to review and revision, as necessary, by the Agency. The revised form becomes a vital part of the Feasibility Letter.

4. Analysis of the Qualifications of the Developer, Processing Agent and Architect (Forms 203 to 206)

Following site approval and simultaneous with the preparation of the Financial Analysis (Form 202) by the developer, Forms 203 to 206 are prepared and submitted to the Agency. These forms provide the written information necessary for an Agency determination regarding the qualifications of the developer, processing agent and architect, including:

*Form 203 - Developer's Qualifications and FHA Form 2530*
*Form 204 - Principal's Qualifications and FHA Form 2530*

The difference between Forms 203 and 204 is that Form 203 is concerned with the sponsoring and development *entity* while Form 204 is concerned with the *principals* (normally the general partners) in the entity.

*Form 205 - Processing Agent's Qualifications*
*Form 206 - Architect's Qualifications* (This form should be submitted prior to the preparation of the schematic submission.)

Copies of these forms can be found in Section VII.

*The submission of the relevant form may be waived by the Agency if an individual or firm has previously filed the form with the Agency, although the Agency may require the previous form to be updated.*

5. Market Analysis

If the site inspection and preliminary economic analysis are favorable, a market analysis is conducted by the Agency. The market analysis determines whether there is sufficient demand by families within the income limits for the proposed development. Proposed room sizes, rents, and amenity levels are taken into consideration. A review is made of the vacancy levels and rents of competitive developments. Absorption rates of new developments in the market area are considered. In addition, material on other developments proposed for the area, economic and demographic data, and other useful data are collected and analyzed. Conversations may be held with people in the area's real estate industry and municipal government.

While the Agency assumes primary responsibility for completing the Market Analysis, the developer may be asked to supply some of the data required.

6. Analysis of Local Receptivity

The receptivity of the local government is an important factor in the feasibility of a proposed development. The analysis may include a review and evaluation of the following items: required zoning changes or variances; real estate taxation policy for MHFA financed developments; off-site improvement requirements; sewer and water tap on fees and other special assessments; the potential for opposition to the development from the chief executive of the governing body or residents near the proposed site; and in some cases, a review of Housing Assistance Plans for lower income housing for communities applying for federal community development funds (Refer to Page II - 11 and Exhibit E, Section VIII). If major impediments to the feasibility of the development are revealed based on the Agency's analysis, further analysis may be deferred until the impediments are removed.

7. Schematic Drawings

In addition to the general location map and boundary map required as part of the Form 201, the Agency encourages developers to submit schematic plans (including site plans, building and unit layouts, elevations and perspectives, etc.) as early as possible in the application process. These drawings are generally not necessary prior to feasibility. However, the Agency has found that their early submission aids in expediting the analysis. A Preliminary Design Conference should be held between the Agency and development team prior to the preparation of schematics.

For more detailed information on architectural submission, refer to Section V, Architects' Guide.

8. Consideration by MHFA Board

The Housing Development Officer assigned to the proposal prepares a recommendation regarding issuance of a Feasibility Letter based on the various analyses described above. Upon review and acceptance of a Development Officer's favorable report by senior staff members and the Executive Director, the proposal is submitted to the MHFA Board for approval. If a favorable determination is made by the Board, a Feasibility Letter is issued.

9. Feasibility Letter - Sample Feasibility Letter

A Feasibility Letter is issued over the Executive Director's signature when the staff and Board are satisfied with respect to the preliminary analysis of the basic features of the proposal (i.e. dwelling unit sizes and types, building types, economic mix, number of units, etc.), the site, certain members of the development team, housing market, projected construction and development costs, and rents. The Feasibility Letter concludes with an invitation to file a formal application.

A Sample Feasibility Letter and Form 202 follow. Again, the names and amounts used in the samples are only examples. They are not to be taken as acceptable benchmarks, amounts or rates. They are included for illustrative purposes only.

## SAMPLE FEASIBILITY LETTER

John Q. Smith Developments, Inc.
101 East Drive
Bigtown, Minnesota

Attention: Mr. John Q. Smith, President

Re: Pine Manor, 95th Avenue, Smalltown, Minnesota, MHFA #ML-0

Gentlemen:

We have reviewed your request for mortgage financing on the captioned development and find that the site, housing market and program set forth below, subject to the conditions also set forth below, appears feasible for mortgage financing under the Minnesota Housing Finance Agency (MHFA) Apartment Development Program. *Please note that this does not constitute a commitment to finance.* Accordingly, you are invited to submit a formal application for mortgage financing.

1. Site: Approximately 10 acres, N/S 95th Avenue, Smalltown, Western County.

2. Owner-Mortgagor: A limited profit entity to be formed, subject to MHFA approval as to membership, capitalization, and legal format. Please note that as of this date we have not obtained completed personal and credit information on the proposed members of the limited profit entity and therefore we have not been able to undertake our background investigation.

3. Processing Agent: First Time Mortgage Co.

4. Attorney: Lawyer and Lawyer. Please note, however, that the Agency has not received Form 208, the Attorney's Qualifications.

5. Architect: Robert Design, A.I.A.

6. Builder: Smith Construction Co. Please note, however, that until Form 209, the General Contractor's Qualifications and FHA Form 2530 are filed we will be unable to undertake our background investigation, and therefore this designation must be considered tentative.

7. Program: 7 two-story buildings containing 100 dwelling units consisting of:

| | | | |
|---|---|---|---|
| 50 | - one-bedroom garden apartments | @ | 725 sq. ft. |
| 30 | - two-bedroom garden apartments | @ | 950 sq. ft. |
| 15 | - three-bedroom townhouses | @ | 1,150 sq. ft. |
| 5 | - four-bedroom townhouses | @ | 1,350 sq. ft. |

Total 100 dwelling units

Included in the development will be a Community Building of approximately 800 sq. ft. and 40 garages.

8. Plans & Amenities: Your proposed site plan would be acceptable with some minor modifications. However, we have not received schematics at this time, and this Feasibility Letter is issued subject to your presentation of an acceptable schematic submission. The construction cost stated below includes all the amenities listed in the Form 201, Preliminary Application, for the subject development. Plans for the development must conform to the FHA Minimum Property Standards and the Agency's Design Standards.

9. Total Estimated Development Cost: Tentatively estimated to be not more than $1,995,303 distributed as follows and as set forth in the MHFA Form 202 (attached).

| | |
|---|---|
| Total Construction Costs (including all improvements, General Requirements, and Builder's General Overhead, etc.) | $1,548,120 |
| Total Fees (Architect, Legal, Processing Agent, etc.) | 85,095 |
| Financing and Carrying Charges | 121,606 |
| Builder/Sponsor Profit and Risk Allowance | 175,482 |
| Land | 65,000 |
| Total | $1,995,303 |

The Agency cannot make final cost estimates for the development until plans and specifications have been further developed. If the replacement cost is increased, the development may be made infeasible.

10. Mortgage Terms: Maximum loan in the amount of $1,867,604, or 90% of the total development costs, plus a Development Cost Escrow. The maximum term of the permanent mortgage loan is 40 years and the projected interest rate is 8.0%. As you know, the interest rate is subject to the fluctuations of the bond market, and although the Agency used an 8.0% interest rate projection in computing the rents shown below in paragraph 12; this is in no way a guaranteed rate. In the event that a commitment is subsequently issued and the development proceeds to initial closing, the interest rate will be determined based upon the Agency's cost of acquiring funds for loan to the development through the sale of its tax exempt bonds and notes. If the mortgage interest rate proves to be higher than 8%, appropriate increases in monthly rents will be authorized.

11. Federal Financial Assistance: Assistance under the Federal Section 8 Program shall be used for approximately one-half (50) of the dwelling units. MHFA will apply to the Department of Housing and Urban Develop-

ment (HUD) for this assistance. HUD has reserved some Section 8 funds on a "case-by-case" basis and, in this instance, to also obtain approval for a 10% increase in the Fair Market Rents applicable to Smalltown. MHFA will use its best efforts to obtain such approvals, and expects to receive such approvals, but at this time cannot make representations of firm availability of the funds.

12. Market Rent: The following market rents are projected for the development:

| Units | Contract Rent | Utilities Paid By Occupants | Gross Rent |
|---|---|---|---|
| 1-bedroom | $221.00 | $12.00 | $233.00 |
| 2-bedroom | $2[illegible].00 | $15.00 | $260.00 |
| 3-bedroom | $280.00 | $18.00 | $298.00 |
| 4-bedroom | $296.00 | $21.00 | $317.00 |

An increase in the mortgage interest rate to 8.5% from 8.0% would increase rents by an average of $7.00 per dwelling unit.

13. Utilities: A gas-oil conversion system has been selected for heating and hot water. Occupants will pay for household electric, including an electric range and air conditioning. This system will not be approved unless you can demonstrate that it is less expensive, considering both operating and construction costs, than an all electric system.

14. Sewer: In addition to municipal approvals regarding sewer connections you will be required to furnish evidence that the sewage hook-up does not violate any rules, regulations or requirements of the Minnesota Environmental Quality Council.

15. Taxes: Real estate taxes of $30,000 were included in the operating budget for purposes of establishing financial feasibility. This quotation was provided by you with full knowledge of the critical importance of this number in determining financial feasibility. Prior to submitting your formal application to our Board, for purposes of authorizing a Commitment, it will be necessary for you to submit evidence, acceptable to MHFA, substantiating this tax figure. In the event the tax figure is increased, financial feasibility may be destroyed thereby making the development infeasible.

16. Land Value: In accordance with established MHFA policy, land will be valued at (1) cost (plus acceptable reasonable carrying charges, if any), or (2) fair market value, whichever shall be lower. An appraisal will be completed in approximately six weeks which will establish the fair market value.

*It is important to understand that this letter is not to be construed as a Commitment on the part of MHFA to finance your proposal.* It is intended only to establish the economic inputs of the proposal, the type of development, the number, the size, and the proposed composition of the units, and the unit rents. Your application for a Commitment will be accepted for further processing by MHFA if your submission does not vary with respect to the items established herein.

It should be understood that this letter places upon you the responsibility to develop a viable project. The conclusions recited above do not reflect detailed cost or operating expense estimates. These determinations will be made at the next stage of processing.

To enable you to make a formal application for a mortgage loan, the Agency has sent you copies of MHFA Forms 207 to 212, and the MHFA Architects' Guide and the Form 202 (Schedules A & B) to your Architect.

*The Form 207, Site and Environmental Data, should be submitted within fourteen (14) days from the date hereof.* Before your architect proceeds with the development of the schematic submission, a *Preliminary Design Conference is necessary* in order to discuss the Agency's architectural standards and submission requirements. Your Processing Agent should make the arrangements for this meeting.

*This letter, and the invitation to file a formal application, expires six (6) weeks from the date hereof, unless forms 207 to 212, a full schematic submission, and the Commitment Fee of $15 per dwelling unit have been received by the Agency.*

The total elapsed processing time to closing, including all reasonable and necessary periods for MHFA staff review, should not exceed five (5) months from the date hereof. This Feasibility Letter shall remain valid and effective until ______________________________, unless extended or renewed by the Executive Director for good cause shown.

Please remember that your Processing Agent and our Development Officer are responsible for processing the subject proposal, and contacts with the Agency should generally be made through our Development Officer, Carol Adams. We look forward to working with you on this important housing development.

Sincerely,

James F. Dlugosch
Executive Director

CC: A. Mover, First Time Mortgage Co.
Carol Adams, MHFA Development Officer

MHFA NO. ML-0
DATE 2/14/75

SCHEDULE C: ESTIMATED ANNUAL EXPENSES AND INCOME

Mortgage Amount $ 1,867,604

Estimated Mortgage Interest Rate 8.00 % MHFA Fees and Charges 0.5 %

Term 40 Years Debt Service Factor .08386

1. Total Gross Annual Expense

| | | | |
|---|---|---|---|
| a. | Interest and Amortization | $ 156,617 | |
| b. | MHFA Annual Fee - 0.5 % | 9,338 | |
| c. | Operating Expenses (refer Sch. D) $ 135 /Year X 435 Rooms | 58,725 | |
| d. | Taxes - Real Estate: $ 300 /D.U.; 10.8 % of Line 1h. | 30,000 | |
| e. | Reserves: | | |
| | (1) Painting and Decorating $ 15 /Year X 435 Rooms | 6,525 | |
| | (2) Replacements 0.6 % of Line 1g. of Sch. B; $ 20 /Year X 435 Rooms | 8,868 | |
| f. | Return on Equity - 4 % on $ 199,530 | 7,981 | |
| g. | Other (specify) | - | |
| h. | Effective Gross Expense (Income) (sub-total Lines 1a. - g.) | | $ 278,054 |
| i. | Vacancy and Collection Loss Factor - 5 % of 1j. | | 14,634 |
| j. | TOTAL | | 292,688 |

2. Less: Non-Housing Income (refer to Sch. E) ( 6,684 )

3. Total Net Annual Expense 286,004

4. Total Net Monthly Expenses $ 23,834

5. Average Rent/Room/Month (Line 4 ÷ 430.5 rental rooms*) $ 55.36

| | NUMBER* | ROOMS/D.U. | CONTRACT RENT | UTILITIES PAID BY OCCUPANT** | GROSS RENT | MONTHLY CONTRACT RENT INCOME |
|---|---|---|---|---|---|---|
| Eff. | | | $ | $ | $ | $ |
| 1 BR. | 50 | 3.5 | 221.00 | 12.00 | 233.00 | 11,050.00 |
| 2 BR. | 29 | 4.5 | 245.00 | 15.00 | 260.00 | 7,105.00 |
| 3 BR. | 15 | 6.0 | 280.00 | 18.00 | 298.00 | 4,200.00 |
| 4 BR. | 5 | 7.0 | 296.00 | 21.00 | 317.00 | 1,480.00 |
| | | | | TOTAL | | $ 23,835.00 |

TOTAL NET MO. EXP. (Line 4 Above) $ 23,834.00

* Do not include free apartments (and rooms) for maintenance and management personnel

** Not included in 1 c. above

FORM NO. ML-D
DATE 2/14/75

## SCHEDULE D: ESTIMATED ANNUAL OPERATING EXPENSES

1. Administrative

a. Advertising and Marketing ............... $________
b. Management Fee - $__________/D.U.;
________% of 1h, Schedule C ........... $________
c. Legal ................................... $________
d. Audit ................................... $________
e. Other (specify) ......................... $________

SUB-TOTAL $________

2. Maintenance

a. Elevator Maintenance ..................... $________**
b. Heating and Air Conditioning Maintenance. $________
c. Janitor Supplies ......................... $________
d. Payroll (from schedule below) ........... $________
e. Repairs ................................. $________
f. Exterminating ........................... $________
g. Insurance ............................... $________**
h. Grounds Maintenance ..................... $________
i. Snow Removal ............................ $________
j. Comm./Prof. Space ....................... $________
k. Other (specify) ......................... $________

l. SUB-TOTAL $________
m. TOTAL ADMINISTRATIVE AND MAINTENANCE $________

3. Utilities (paid by owner)

a. Oil ..................................... $________**
b. Electric (paid by owner) ................

- ☐ Elevators
- ☐ Heating
- ☐ Household Electricity
- ☐ Hot Water
- ☐ Air Conditioning
- ☐ Cooking
- ☐ Public Space
- ☐ Comms/Prof.

$________**

NOT REQUIRED AT FEASIBILITY

c. Sewer ................................... $________**
d. Water ................................... $________**
e. Gas (paid by owner) .....................

- ☐ Cooking
- ☐ Heating
- ☐ Air Conditioning
- ☐ Hot Water

$________**

f. Garbage and Trash Removal ................ $________**
g. Other (specify) ......................... $________

h. TOTAL $________

4. Total Operating Expenses (enter on Line 1c. of Schedule C) .............. $________

5. Average Expense/Room/Year (Line 4 ÷ ________ total rooms) .............. $________

6. Payroll Breakdown

| Number | Type of Position | Rental Value of Quarters* | Wages | Social Security + Fringe Benefits | Total |
|---|---|---|---|---|---|
| | | $( ) | $ | $ | $ |
| | | ( ) | | | |
| | | ( ) | | | |
| | | ( ) | | | |
| | | ( ) | | | |
| | | $( ) | $ | $ | $ |

* Do not include in total.
** These items should be backed up by bids, estimates from the utility companies, or an analysis of expenses incurred by comparable developments.

2/75

DATE 2/14/75

FORM 202 - FINANCIAL ANALYSIS

SCHEDULE A: BASIC INFORMATION

(✓ where appropriate)

X Feasibility
___ Commitment
___ Initial Closing
___ Pre-Occupancy

John Q. Smith Developments, Inc.
(Name of Developer)

Eastern Estates (Name of Housing Development) — ML-0 (MHFA No.)

LOCATED AT 95th Avenue (Address) — Smalltown (Municipality) and Western (County)

## TYPE OF DEVELOPMENT

(X) New Construction ( ) Non-Profit (X) Section 8 50 %

( ) Rehabilitation (X) Limited Profit ( ) Elderly ____.

Zoning Classification: R-3 ( 12 Units Per Acre) ____ Existing X Proposed

No. of dwelling units: 100 Total Land Area 426,900 Sq. Ft. (9.8 acres)

Total Parking 150 Land Coverage 52,000 Sq. Ft. (12.2 %)

Ratio of Parking to D.U.'s 1.5/1 Density 10.2 Units per acre

| TYPE OF STRUCTURES | Number of Buildings | Number of Stories | Number of Units** | Gross Square Feet** |
|---|---|---|---|---|
| Residential A (type):* G | 3 | 2 | 80 | 80,000 |
| Residential B (type):* TH | 3 | 2 | 20 | 24,000 |
| Commercial/Professional | | | — | |
| Garage | 4 | 1 | — | 8,000 |
| Community | 1 | 1 | — | 800 |
| TOTALS | 11 | | 100 | 112,800 |

* Garden Apartments (G), Townhouses (TH), Mid-Rise -- 4 to 8 stories (MR), High-Rise (HR), etc.
** Total for structure type -- not per building.

## APARTMENT DISTRIBUTION

| UNIT TYPE | % of Total D.U.'s | Number of D.U.'s | Size (Net Rental Area) | Rental Rooms P.U. | Rental Rooms Total | Number of Balconies | Projected Monthly Housing Expense: Contract Rent | Projected Monthly Housing Expense: Util. Paid by Occup. |
|---|---|---|---|---|---|---|---|---|
| A 1 BR - G | 50% | 50 | 725 sq. ft. | 3.5 | 175 | 20 | $221 | $12 |
| B 2 BR - G | 30% | 30 | 950 sq. ft. | 4.5 | 135 | 20 | $245 | $15 |
| C 3 BR - TH | 15% | 15 | 1,150 sq. ft. | 6 | 90 | -- | $280 | $18 |
| D 4 BR - TH | 5% | 5 | 1,350 sq. ft. | 7 | 35 | -- | $296 | $21 |
| E | | | | | | | | |
| TOTAL | 100% | 100 | — | — | 435 | 40 | | |

Average no. of rooms per D.U. 4.4

Utilities to be paid by occupant (except telephone):

X Household electric X Air conditioning ___ Other: ___

Heat Hot Water

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## SCHEDULE B: ESTIMATED DEVELOPMENT COST AND MORTGAGE AMOUNT

**1. CONSTRUCTION COSTS**

| | | | | |
|---|---|---|---|---|
| a. | Residential A | ($ 13.00 /gross sq. ft.) | $ 1,040,000 | |
| b. | Residential B | ($ 14.50 /gross sq. ft.) | $ 348,000 | |
| c. | Comm./Prof. | ($ /gross sq. ft.) | $ - | |
| d. | Garage | ($ 5.00 /gross sq. ft.) | $ 40,000 | |
| e. | Community | ($ 25.00 /gross sq. ft.) | $ 20,000 | |
| f. | Site work | ($ 300.00 /D. U.) | $ 30,000 | |
| g. | | SUB TOTAL ------- | $ 1,478,000 | |
| h. | General Requirements 2.00 % of $ 1,478,000 | | $ 29,560 | |
| i. | Builder's General Overhead 2.00 % of $ 1,478,000 | | $ 29,560 | |
| j. | Builder's Profit (only non-profits) % of $ | | $ - | |
| k. | Bond Premium | | $ 11,000 | |
| l. | Other (specify) | | $ - | |
| m. | | TOTAL | | $ 1,548,120 |

**2. FEES**

| | | | |
|---|---|---|---|
| a. | Architect's Fee -- Design 2.13 % of $ 1,478,000 | $ 31,481 | |
| b. | Architect's Fee -- Supervision .71 % of $ 1,478,000 | $ 10,494 | |
| c. | Legal | $ 6,000 | |
| d. | Processing Agent - .90 % of Line 8a. | $ 16,162 | |
| e. | Marketing - 1 % of Line 8a. | $ 17,958 | |
| f. | Surveys and Soil Borings | $ 3,000 | |
| g. | Other Fees (specify) | $ - | |
| h. | TOTAL | | $ 85,095 |

**3. FINANCING AND CARRYING CHARGES**

| | | | |
|---|---|---|---|
| a. | Interest at 8 % for 10 months on $ 897,887 | $ 59,859 | |
| b. | Taxes | $ 7,853 | |
| c. | Insurance | $ 5,000 | |
| d. | MHFA Inspection Fee - 0.5 %/year of Line 8a. | $ 8,979 | |
| e. | MHFA Financing Fee - 2.0 % of Line 8a. | $ 35,915 | |
| f. | AMPO (only non-profits) | $ - | |
| g. | Title and Recording | $ 4,000 | |
| h. | Other Fees (specify) | $ - | |
| i. | TOTAL | | $ 121,606 |

**4. BUILDER/SPONSOR PROFIT AND RISK**

10 % of $ 1,754,821 (Total 1-3) ------------------- $ 175,482

**5. LAND**

| | | | |
|---|---|---|---|
| a. | $ 650 /D.U., and 426,900 sq. ft. at $ 0.15 per sq. ft. | $ 65,000 | |
| b. | Off-site Improvements, tap on fees, spec. assess. | $ | |
| c. | Carrying Charges | $ | |
| d. | Relocation Costs | $ | |
| e. | TOTAL | | $ 65,000 |

**6. TOTAL ESTIMATED DEVELOPMENT COST OF PROJECT (TOTAL 1-5)** (Per D.U. $19,953 ) $ 1,995,303

**7. EQUITY REQUIREMENT** - 10 % of Line 6 $ 199,530

**8. MAXIMUM MORTGAGE LOAN**

| | | | |
|---|---|---|---|
| a. | 90 % of Line 6 | $ 1,795,773 | |
| b. | Development Cost Escrow $ 718 /D.U.: 4 % of Line 8a. | $ 71,831 | |
| | TOTAL | | $ 1,867,604 |

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## SCHEDULE E: NON-HOUSING INCOME

1. Parking Income

   a. 40 Indoor spaces - $ 12.00 /mo. X 12 mo. = $ 5,760

   Less 10 % Vacancy loss equals ...................... $ 5,184

   b. 110 Outdoor spaces - $ -0- /mo. X 12 mo. = $________

   Less ________ % Vacancy loss equals ...................... $________

2. Income From:

   a. Washing machines - $ 15.00 /D.U./yr. X 100 D.U. ............ $ 1,500

   b. Vending machines - $________ /D.U./yr. X ________ D.U. ............ $________

3. Professional space - ________ sq. ft. X $________ /sq. ft./yr.

   Less ________ % Vacancy loss equals ...................... $________

4. Commercial space - ________ sq. ft. X $________ /sq. ft./yr.

   Less ________ %Vacancy loss equals ...................... $ 6,684

## SCHEDULE F: MHFA MARKET RATE PROGRAM FEASIBILITY

| UNIT | OCCUPANCY | GROSS RENT | MINIMUM INCOME NEEDED TO AFFORD RENT* | MHFA INCOME LIMIT** | AMOUNT OF SPREAD | FEASIBLE |
|---|---|---|---|---|---|---|
| Eff. | 1 | | | | $1,000 spread minimum for this development. | |
| | 2 | | | | | |
| 1 BR. | 1 | 233 | 11,184 | 15,789 | 4,605 | Yes |
| | 2 | 233 | 11,184 | 15,789 | 4,605 | Yes |
| 2 BR. | 2 | 260 | 12,480 | 15,789 | 3,309 | Yes |
| | 3 | 260 | 12,480 | 16,105 | 3,625 | Yes |
| | 4 | 260 | 12,480 | 16,421 | 3,941 | Yes |
| 3 BR. | 4 | 298 | 14,304 | 16,421 | 2,117 | Yes |
| | 5 | 298 | 14,304 | 16,737 | 2,433 | Yes |
| | 6 | 298 | 14,304 | 17,053 | 2,749 | Yes |
| 4 BR. | 6 | 317 | 15,216 | 17,053 | 1,837 | Yes |
| | 7 | 317 | 15,216 | 17,368 | 2,152 | Yes |
| | 8 | 317 | 15,216 | 17,684 | 2,468 | Yes |
| 5 BR. | 8 | | | | | |
| | 9 | | | | | |
| | 10 | | | | | |

* Minimum income needed to afford the MHFA market rate (unsubsidized) rent assumes occupants should pay at a maximum 25% of their gross income toward housing expenses. Therefore, minimum income is calculated by multiplying the gross rent X 48.

** This column indicates the estimated gross income limits. In some cases, the limits could be higher for households with elderly members, secondary wage earners, non-recurring income and extraordinary medical expenses.

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## SCHEDULE G: SECTION 8 FEASIBILITY

| UNIT | SECTION 8 FAIR MARKET RENT (FMR) | 110% OF FMR* | GROSS RENT | AMOUNT OF SPREAD | FEASIBLE |
|---|---|---|---|---|---|
| Eff. | | | | | |
| 1 BR. | 225 | 248 | 233 | 15 | Yes |
| 2 BR. | 255 | 281 | 260 | 21 | Yes |
| 3 BR. | 373 | | 298 | 75 | Yes |
| 4 BR. | 395 | | 317 | 78 | Yes |
| 5 BR. | | | | | |

* Use only if adjustment required to establish feasibility

## SCHEDULE H: REQUIREMENTS FOR SETTLEMENT AT CLOSING

| | | | |
|---|---|---|---|
| 1. | Equity Requirement (Line 7, Schedule B) | $ 199,530 | |
| 2. | Working Capital Escrow ( 3 % of Line 8a., Schedule B) (specify -- Cash or Letter of Credit [LC]) | $ 53,873 [LC] | |
| 3. | SUB-TOTAL | | $ 199,530 |
| 4. | Less: Sources of Equity | | |
| | a. Net interest in land | $ -0- | |
| | b. BSPRA (Line 4, Schedule B) | $ 175,482 | |
| | c. Other (specify) | $ - | |
| | d. SUB-TOTAL | | ( 175,482 ) |
| 5. | Total Estimated Cash Requirement for Closing | | $ 24,048 |

The undersigned Applicant hereby makes application to the Minnesota Housing Finance Agency (MHFA) for an interim and permanent mortgage loan in the amount of $ 1,867,604 for a term of 40 years, pursuant to the Minnesota Housing Finance Agency Act, as amended, for the purpose of providing housing as described above, said loan to be secured by a first mortgage on the property herein described. The Applicant further requests MHFA, on behalf of this Development, to make application to appropriate agencies of the Federal Government in order to obtain Section 8 Housing Assistance Payments, in furtherance of low and/or moderate income occupancy for 50 % of the Development. The Applicant understands and agrees that any Commitment or loan made by MHFA may be conditioned upon availability and use of Section 8 assistance.

The undersigned hereby certifies that he believes he can build the Development within the development budget set forth in Schedule B and operate the development with the operating budget set forth in Schedule D and further certifies that the information set forth in these Financial Schedules A through H, and in any attachments in support thereof, is true, correct and complete to the best of his knowledge and belief.

IN WITNESS WHEREOF, the Applicant has caused this document to be duly executed in its name on this 14th day of February, 19 75.

John Q. Smith Developments, Inc.
APPLICANT

By: John Q. Smith
NAME

President
TITLE

## D. STEPS LEADING TO COMMITMENT

The Feasibility Letter concludes with an invitation to file an application for Commitment. The major steps leading to Commitment include:

1. Application and approval for Section 8 funding (MHFA)
2. Submission, review, and approval of MHFA Forms 207 - 212
3. Submission, review, and approval of schematic drawings and documents
4. Submission, review, and approval of Financial Analysis (Form 202) for Commitment
5. Submission, review, and approval of preliminary plans and specifications
6. Agreement on construction costs and schedules (Forms 213 and 214)
7. Submission, review, and approval of Affirmative Action Plan During Construction and the Pre-Commitment Marketing Plan (Forms 215 and 216)
8. Submission of evidence of zoning (developer)
9. Approval by MHFA Board
10. Issuance of a Commitment by MHFA

The following material discusses these steps in greater detail.

### 1. Section 8 Reservation

Immediately after a Feasibility Letter is issued, the Agency will prepare and submit an application for the necessary preliminary reservation of Section 8 funds. As mortgage processing progresses, additional submissions and approvals are required (Refer to Exhibit F, Section VIII). A firm reservation of Section 8 funds will be obtained by the Agency prior to Commitment.

The developer has no direct role in obtaining Section 8 reservations; the Agency undertakes this task.

### 2. Forms 207 to 212

Within six (6) weeks of issuing the Feasibility Letter, the developer is required to submit Forms 207 to 212. These Forms provide the Agency with more detailed information about the site; information necessary for evaluating the credentials of the attorney, general contractor, and marketing/management agent; and Equal Employment Opportunity and Anti-Discrimination certifications. Sample copies of the Forms are included in Section VII.

*Form 207 - Site and Environmental Data* - This Form provides the Agency with information necessary to expedite federal environmental clearance of the proposal and MHFA's appraisal of the site. It also attempts to identify any latent site problems. (The Form 207 should be submitted as quickly as possible after receipt of the Feasibility Letter.)

Forms 208 - 210 provide the written information necessary for an Agency determination regarding the qualifications of the attorney, general contractor and marketing/management agent. The FHA Form 2530 is required and is used to review the federal housing program experience of certain members of the development team.

*Form 208 - Attorney's Qualifications*

*Form 209 - General Contractor's Qualifications and FHA Form 2530*

*Form 210 - Marketing Agent's and Management Agent's Qualifications and FHA Form 2530* (May be two different entities)

Forms 211 and 212 are required at this stage of processing in order to obtain a firm reservation of Section 8 funds.

*Form 211 - Affirmative Fair Housing Marketing Plan (HUD Form 935.2)* This plan develops the strategies, techniques and goals for achieving occupancy in the proposed development by minority group members.

*Form 212 - Equal Employment Opportunity and Anti-Discrimination Certificates (FHA Form 2010 and HUD Form 41901)*

3. Schematic Submission

Within six (6) weeks of issuing the Feasibility Letter, a full schematic submission must be forwarded to the Agency for review. Normally, immediately after the Feasibility Letter is issued, a Preliminary Design Conference is held between the Agency and development team. At this meeting, the Agency's Architectural Standards and submission requirements are discussed along with the architectural program for the proposed development. The schematic submission includes a site plan, building and unit layouts, building elevations, perspectives, wall sections, brief specifications, and a summary cost estimate. The Architects' Guide, Section V, provides the detailed guidelines for this submission.

4. Financial Analysis for Commitment

The Financial Analysis (Form 202) for Commitment is completed after the Agency's approval of the schematic submission. This Financial Analysis updates the preliminary financial analysis used in the feasibility determination, and it is based on the refined architectural program, and construction and operating cost projections. Detailed operating cost expense estimates are prepared -- Schedule D of the Form 202 (Refer to Page III - 19). Since the Agency's appraisal is generally completed at this stage of processing, land value is firmly set. Real estate tax estimates are refined. Construction costs are based on the summary cost estimate prepared by the architect and developer (or general contractor). *The form 202 for Commitment sets firm construction and development cost limits for the duration of mortgage processing.*

5. Preliminary Plans and Specifications

After the successful completion of items 1 through 4 above, the architect prepares preliminary plans and specifications in accordance with the guidelines described in the Architects' Guide (Refer to Section V). The Agency reviews and approves these submissions. The preliminary plans and specifications are usually equivalent to 50% to 60% complete plans and specifications. The approved preliminary plans and specs are used by the Agency and developer (or general contractor) to prepare detailed cost estimates.

6. Agreement on Construction Costs and Schedules (Forms 213 and 214)

After agreement is reached on the preliminary plans and specifications, the developer (or general contractor) and the Agency each prepare detailed construction cost estimates. *Form 213, the Trade Payment Breakdown,* is used by the developer to present the cost estimate (Refer to sample in Section VII). The Agency reviews the developer's estimate and substantial differences in the estimates are resolved through negotiation. After agreement is reached between the Agency and the developer, the developer and general contractor commit to build the proposed housing in accordance with the Trade Payment Breakdown and preliminary plans and specifications using *Form 214, Construction Commitment* (Refer to sample in Section VII).

7. Affirmative Action Plan (During Construction) and Pre-Commitment Marketing Plan (Forms 215 and 216)

After agreement is reached on the construction costs, the developer (or general contractor) prepares *Form 215, Affirmative Action Plan During Construction.* This plan develops the strategies, techniques and goals for achieving employment of minority group members during construction.

At this stage, the Marketing Agent prepares *the Pre-Commitment Marketing Plan, Form 216.* This plan develops the basic strategies for marketing the development, including the development of a "Resident Selection Plan." This plan established the basic marketing strategy and economic mix for the development. Sample copies of these forms are included in Section VII. The plans are reviewed for conformance with State and federal requirements. Agreement on these plans is required prior to commitment.

8. Zoning Evidence

Where re-zoning or other zoning adjustments are required, the developer must submit evidence that the re-zoning or other necessary adjustments have been accomplished.

9. Approval by MHFA Board

The Development Officer assigned to the proposal prepares a recommendation regarding issuance of a Commitment Letter based on the analyses and approvals of the items described above. If senior staff members and the Executive Director concur with the Development Officer's positive recommendation, the proposal is submitted to the Board for approval. If a favorable determination is made by the Board, a Commitment Letter is issued.

10. Commitment Letter - Sample Commitment Letter

A Commitment Letter is issued over the Executive Director's signature when the staff and Board are satisfied with: the qualifications of the development team, the architectural plans and specifications, the construction and development costs, the projected rents and operating expenses, the zoning, and the affirmative action and equal employment opportunity plans. All major impediments to the prompt construction of the development must be removed prior to Commitment. The Commitment Letter concludes by setting out the legal requirements and other conditions for closing the mortgage loan. A Sample Commitment Letter follows. Again, the names and amounts used in the sample are only examples; they are included for illustration purposes only.

*(ADDITIONAL MATERIAL TO FOLLOW)*

## IV. MHFA FEE SCHEDULES

### A. INTRODUCTION

Fee schedules contained in this document reflect the "MAXIMUM" (Mortgageable) fees to be allowed for housing developments financed by the Agency.

Most knowledgeable developers will negotiate fees with the other members of the development team within the established maximums and in many cases, this will be imperative to achieve economic feasibility. In all cases, however, the allowable mortgageable fee amounts are generally negotiated between the Agency and the development team. THE FEES LISTED BELOW MAY BE CHANGED FROM TIME TO TIME WITHOUT NOTICE OR ON A CASE BY CASE BASIS.

### B. BUILDER'S AND SPONSOR'S FEES

#### 1. General Requirements (Certifiable)

Items of cost to be considered in this allowance are specified in the detailed Trade Payment Breakdown (Form 213), including: on-site supervision, signs, field office expenses, temporary sheds and toilets, temporary utilities, equipment rental, clean-up costs, rubbish disposal, permits, surveys, watchman's wages, material inspection and tests, all of the builder's insurance, temporary walkways, fences, roads and other similar expenses. The Agency allows a *maximum of 2.50%* of net construction costs which is the sum of the subtotal amount for structures and site work on line 1g. of Schedule B, Form 202 (Refer to Page III - 17). For mid-rise or highway apartment construction, the General Requirement may exceed that of 2.50% stated above.

#### 2. Builder's General Overhead (Non-certifiable)

The Agency allows a Builder's general overhead allowance based on net construction costs as defined in item 1 above. The permitted maximum non-certifiable allowance follows:

| NET CONSTRUCTION COST | MAXIMUM OVERHEAD ALLOWANCE |
|---|---|
| $ 500,000 | 3.00% |
| $1,000,000 | 2.75% |
| $2,000,000 | 2.25% |
| $5,000,000 | 1.75% |
| OVER $5,000,000 | 1.50% |

The percentage rate should be adjusted proportionately (interpolated) when net construction costs fall between two points.

#### 3. Builder's and Sponsor's Profit and Risk Allowance (Limited Profits Only)

*For limited profit developers,* a mortgageable Builder's and Sponsor's Profit and Risk Allowance (BSPRA) is permitted. This Allowance includes the profit both for building and for sponsoring the development. In those instances in which a developer engages a builder to do the construction, the developer may pay the builder's profit out of the BSPRA. This payment of profit to the builder will entail the sponsor investing more cash in the development than would have been the case if the sponsor were also the builder.

*The BSPRA is calculated at 10% of all mortgageable construction costs, fees, financing and carrying charges* -- the total of items 1, 2, and 3 on the Form 202, Page III - 17. In other words, the 10% for BSPRA is not calculated on land and land related costs and the Development Cost Escrow. BSPRA may be used to meet the equity requirements at the initial closing.

4. Builder's Profit (non-Profits Only)

A BSPRA allowance is not permitted for non-profit sponsors. However, a mortgageable Builder's Profit is permitted. For non-profit developments, the Agency allows a *maximum of 6%* of net construction costs for the Builder's Profit (as defined in item 1 above).

5. Bond Premiums

The Agency allows a *reasonable allowance* for the costs of 100% Payment and Performance Bonds.

## C. ARCHITECT'S FEES

The maximum architect's design and supervision fees, as set forth below, are comparable to those allowed by similar agencies. The Agency's form architectural agreements (Refer to Section V) define the scope of services required of the design and supervisory architects.

Separate allowances for design and supervision are applied to net construction costs, defined as the sum of the subtotal amount for structures and site work -- line 1g. of Schedule B, Form 202 (Refer to Page III - 17). General Requirements, builder's general overhead and, if applicable, builder's profit and the bond premium are *not* included in this base.

| NET CONSTRUCTION COST | MAXIMUM DESIGN PERCENTAGE | MAXIMUM SUPERVISION PERCENTAGE |
|---|---|---|
| $ 300,000 | 6% | 2% |
| 500,000 | 5% | 1.67% |
| 1,000,000 | 4.5% | 1.5% |
| 2,000,000 | 4.0% | 1.33% |
| 3,000,000 | 3.5% | 1.17% |
| 4,000,000 | 3.2% | 1.07% |
| 5,000,000 | 2.9% | .97% |
| 6,000,000 | 2.7% | .90% |
| 7,000,000 | 2.5% | .83% |
| 8,000,000 | 2.35% | .75% |
| 9,000,000 | 2.2% | .73% |
| 10,000,000 | 2.1% | .70% |

The percentage rates should be adjusted proportionately (interpolated) when net construction costs fall between two points.

*The maximum fee for the design architect is firmly set in the Form 202* issued as part of the Feasibility Letter.

The MHFA will *not* permit the maximum design fee if:

1. The architect uses plans and specifications which are essentially the same as those previously developed and used by the architect.
2. The design of the development involves a number of repetitive buildings -- as an example, six buildings which are essentially the same.

On the other hand, for sites consisting of a mix of different building types -- as an example, a development which includes townhouses, garden apartments and a mid-rise building -- fees in excess of the schedule above may be permitted, as determined by the Agency.

## D. LEGAL FEES

Legal fees cover the cost of legal representation in the following areas: (1) organizing the mortgagor entity and qualifying it under relevant housing and tax provisions of federal, state and local law; (2) obtaining legal control of or title to the building site; (3) preparing and negotiating contracts for other members of the development team; (4) preparing and negotiating required closing and construction documents, and supervising their execution; and (5) providing general counsel, as needed, together with all other reasonable and necessary legal services, excluding litigation, to enable the development to successfully achieve closing, construction, completion, and occupancy.

Since the mortgage amount has little relevance to the necessary volume of legal services required, the Agency has set a *maximum mortgageable limit of $7,500 for legal expenses.*

If rezoning or other zoning adjustments are required during mortgage processing, an additional allowance for legal expenses may be permitted, as determined by the Agency.

## E. PROCESSING AGENT (CONSULTANT)

The functions of the Processing Agent (PA) are described in general on Page II - 14. The Processing Agent coordinates the activities of the development team; the other members being the developer, architect, attorney, builder, management and marketing agent(s) and accountant. The PA is the liaison between the Agency and the development team. The developer's PA and Agency's HDO perform similar functions.

The Processing Agent is defined as an individual or form with experience and competence in the organization and planning of housing; housing market evaluation; site selection; program selection; feasibility analysis; procurement of financing; evaluation and selection of development team members; project coordination and monitoring; and in the preparation of necessary documents.

In order to receive the maximum fee authorized by the Agency, the Processing Agent must provide the following services, if applicable:

1. Assistance to the sponsor in determining its role in the housing field (based on an analysis of the local housing market) and its immediate and long range goals. Assistance in organizing the mortgagor entity and enabling it to qualify for eligibility under State and federal law.
2. Assistance to the sponsor in selecting and optioning a suitable housing site.
3. Assistance to the sponsor in selecting and negotiating with the architect, attorney, builder, management and marketing agent(s) and accountant, and guiding and coodinating this development team from its inception through the final mortgage closing.
4. Assistance to the sponsor in the development of a basic housing program including: the basic architectural program, the number and type of units, amenity and rent levels, the amount of Section 8 assistance, community and commercial facility plans, and other basic program aspects.
5. Completing all work necessary to establish feasibility of the development.
6. Assistance to the sponsor in obtaining necessary zoning changes. In addition, assisting the attorney in negotiating the acquisition of land with the public agency for developments built in urban renewal areas.
7. Assisting in obtaining from the builder an acceptable plan for assuring equal employment opportunity and monitoring compliance with this plan during construction.
8. Representing the sponsor and leading the development team at conferences and discussions with MHFA representatives, the building contractor, and local agencies and officials.
9. Assistance in preparing all applications, budgets and other documents necessary for feasibility and commitment.
10. Coordinating of the development team at the initial and final closing.

The Processing Agent should have:

1. Proven success in multi-family housing development in a major capacity as either housing consultant or developer; or

2. In-depth experience at decision-making levels in at least several of the following or closely related fields: mortgage banking or brokerage, broad-based real estate experience, appraising, planning, executive or professional employment in a government housing agency, architectural design or supervision, real property law, or property management.

The maximum mortgageable fee the Agency will permit for Processing Agent services follows:

| MORTGAGE AMOUNT | MAXIMUM PERCENTAGE PROCESSING AGENT FEE |
|---|---|
| Up to $3,000,000 | 1% (to a maximum of $25,000) |
| $3,000,000 to $5,000,000 | .85% (to a maximum of $35,000) |
| Over $5,000,000 | .75% (to a maximum of $45,000) |

If the sponsor/developer is qualified to perform the PA functions, up to one-half of the full PA fee may be permitted by the Agency. The full fee is available only when there is no identity of interest between the PA and sponsor/developer.

## F. MARKETING

A portion of the expenses for marketing a development is mortgageable. *Typically, 1% of the mortgage* is set aside for payment of the following marketing expenses:

Logo Design
Brochure Design and Printing Costs
Interior Decorator
Furnishing of model apartments and community space
Newspaper Ads
Signs
Marketing staff (on-site)
Marketing Agent Fee (based on a set fee [$50 for example] per unit rented)

Marketing expenses must be certified to the Agency. Refer to the Marketing Plans in Section VII for additional information.

## G. MHFA FEES

### 1. Application Fee

The mortgage loan *Application Fee is $15 per dwelling unit,* payable upon filing of the preliminary application. The application fee is in no event refundable subsequent to the issuance of a site acceptance by the Agency. In the event a Feasibility Letter is issued, refer to Section III, the application fee is considered earned even though the characteristics of the development and the mortgage considered feasible may be different from that stated in the application -- including the size of development, mortgage amount, rents, and unit distribution.

### 2. Commitment Fee

Following issuance of a Feasibility Letter, *the Commitment Fee is an additional $15 per dwelling unit,* payable upon filing of the Commitment application and documentation. In the event the Commitment is not issued, this fee is in no event refundable.

### 3. Financing Fee

The total *Financing Fee is 2.0% of the mortgage,* and this fee is included in the total development cost as a mortgageable fee -- line 3e. of Form 202, Page III - 17. It is paid at initial closing. Both the application fee and the commitment fee are credited toward this fee. However, if the mortgage amount exceeds $5,000,000, a 1% financing fee will be charged to that mortgage amount over $5,000,000.

### 4. Inspection Fee

An *Inspection Fee of 1/2 of 1%* is charged and is included as a mortgageable item to be paid during the construction period. (Refer to line 3d. of the Form 202, Page III - 17.)

### 5. Annual Fee

Following the initial mortgage closing, a fee of *1/2% of the original face amount of the mortgage* is charged as an Annual Fee. This sum is not required during the construction period and therefore is not included as a mortgageable item during the construction period. However, it is included as an expense item during the operation period -- refer to line 1b. on Page III - 18.

## H. ALLOWANCE TO MAKE THE PROJECT OPERATIONAL (AMPO)

*For developments owned by non-profits* an Allowance to Make the Project Operational (AMPO) is permitted as a mortgageable cost. *Generally AMPO will be established at 2% of the mortgage.* AMPO funds could cover the following type of start up expenses and costs:

1. Purchase of furnishings for community space.
2. Purchase of equipment and supplies.
3. Early hiring of maintenance personnel.

4. Accounting services.
5. Escrows for taxes, insurance, Agency annual fees, etc.
6. Unanticipated expenses and costs -- AMPO serves, in part, as a contingency reserve.

This amount expended for AMPO is a cost certifiable item.

## I. DEVELOPMENT COST ESCROW

The functions and general uses for the DCE are discussed on Page II - 16. The amount of the DCE will be fully mortgageable and *will generally approximate 4% of the mortgage,* although the amount may vary based on the level of financing risk, the type of sponsor, conditions in the money market and other similar factors as determined by the Agency.

Generally, the DCE will have no or a minimal impact on rent levels since the developer's authorized cash return on equity is adjusted in order to offset the additional mortgage charges necessary to carry the DCE. Interest on the DCE may be used to help increase the developer's cash return on equity up to the permitted 6% maximum.

The DCE has no impact on BSPRA, fees, financing, carrying charges, or the equity requirement calculations and amounts. It is treated as a simple add-on to the mortgage amount. (Refer to Line 8b. of Form 202, Page III - 17.)

## J. RETURN ON EQUITY

As described on Page II - 26 and the previous subsection, *the maximum cash return on equity is limited to 4% per year derived from the development's cash flow (line 1f. of Form 202, Page III - 18) and may be increased to 6% per year from interest earned on the DCE.*

Since BSPRA is generally used to meet most of the equity requirements, the developer's *cash* return on cash equity will generally be considerably higher than the 4% maximum, and certainly, when depreciation benefits are considered, the rate of return becomes extremely attractive to the developer and investors. (See Page II - 26 on Profit Potential.)

Further, interest derived from the investment of the DCE may be paid out to investors at the discretion of the Agency, even in those years where cash from operations may be insufficient to pay the base return of 4%.

*THE FEES LISTED ABOVE MAY BE CHANGED FROM TIME TO TIME BY THE AGENCY IN GENERAL AND FOR FULLY DOCUMENTED REASONS ON A CASE BY CASE BASIS.*

## V. ARCHITECTS' GUIDE

### A. INTRODUCTION

The architect is urged to review Section III of this Handbook which describes the processing requirements for obtaining an Agency mortgage loan. This section specifically describes the timing of architectural submission. In general, mortgage processing and architectural submissions relate as follows:

| PROCESSING STAGE | SUBMISSION |
| --- | --- |
| 1. Prior to Feasibility | MHFA Form 206, Architect's Qualifications.<br><br>Schematic submission normally optional but desirable at this stage. |
| 2. Immediately After Feasibility | Preliminary Design Conference and full schematic submission (due within (6) weeks of issuing the Feasibility Letter). |
| 3. Prior to Commitment | Preliminary plans and specifications (50% - 60% completed plans and specs). |
| 4. After Commitment | Completed working drawings and final specifications. Documents required for closing (contract, certification and insurance). |

## B. FEE SCHEDULE

The maximum architect's design and supervision fees, as set forth below, are comparable to those allowed by similar agencies. The Agency's form architectural agreements (Refer to subsection J) define the scope of services required of the design and supervisory architects.

Separate allowances for design and supervision are applied to net construction costs, defined as the sum of the subtotal amount for structures and site work -- line 1g. of Schedule B, Form 202 (Refer to Page III - 17). General Requirements, builder's general overhead, and, if applicable, builder's profit and the bond premium are not included in this base.

| NET CONSTRUCTION COST | MAXIMUM DESIGN PERCENTAGE | MAXIMUM SUPERVISION PERCENTAGE |
|---|---|---|
| $ 300,000 | 6% | 2% |
| 500,000 | 5% | 1.67% |
| 1,000,000 | 4.5% | 1.5% |
| 2,000,000 | 4.0% | 1.33% |
| 3,000,000 | 3.5% | 1.17% |
| 4,000,000 | 3.2% | 1.07% |
| 5,000,000 | 2.9% | .97% |
| 6,000,000 | 2.7% | .90% |
| 7,000,000 | 2.5% | .83% |
| 8,000,000 | 2.35% | .75% |
| 9,000,000 | 2.2% | .73% |
| 10,000,000 | 2.1% | .70% |

The percentage rates should be adjusted proportionately (interpolated) when net construction costs fall between two points. *The maximum fee for the design architect is firmly set in the Form 202 issued as part of the Feasibility Letter.* The MHFA will not permit the maximum design fee if:

1. The architect uses plans and specifications which are essentially the same as those previously developed and used by the architect.
2. The design of the development involves a number of repetitive buildings -- as an example, six buildings which are essentially the same.

On the other hand, for sites consisting of a mix of different building types -- as an example, a development which includes townhouses, garden apartments and a mid-rise building -- fees in excess of the schedule above may be permitted.

## C. ARCHITECT'S QUALIFICATIONS (Form 206)

Prior to preparing plans or specifications, the architect's credentials must be submitted to the Agency on Form 206 which follows.

*(FORM 206 TO FOLLOW)*

## D. PRELIMINARY DESIGN CONFERENCE

Previous to the Preliminary Design Conference, the architect should review this Guide and Handbook; the Form 201; the Form 202; and the Feasibility Letter (if issued).

The Preliminary Design Conference has two purposes. The first is to provide a forum for the Agency's and Developer's architect to discuss the architectural standards and submission requirements.

The second is to enable the architect to begin work on the architectural aspects of the proposed development.

On the latter point, the Developer's architect should submit to the Agency *at least 48 hours in advance of the meeting* sketches and short written summaries on the following points:

1. General site plan.
2. General construction and mechanical systems to be used and any unique construction features, methods or concepts.
3. Type of development -- building types, number of buildings, and unit sizes and mix.
4. Information as to the availability and location of utilities to the site.
5. Information on any potential environmental clearance problems.
6. 50 and 100 year flood plains.

## E. SCHEMATIC SUBMISSION

The schematic submission is the first submission to include precise scale and elevations as well as rough construction detail on all structures to be built on the proposed site. This submission should enlarge upon and integrate the data submitted for the Preliminary Design Conference. The drawings should show the intended spatial relationships and basic systems to be used in the development. *(These and all other submissions shall be "Blueline", not "Blueprint".)*

Listed below are the items to be included in the schematic submission:

### 1. Cover and Title Sheet

The cover and title sheet indicate:

a. Name of proposed development
b. Location
c. MHFA number
d. Developer's name and/or entity
e. Design Architect's name and firm
f. Date of submission

### 2. Site Plan

At a scale of 1" = 100' or larger, the site plan must show:

a. Existing contours and dimensions of all property lines.
b. Outlines and dimensions -- including height -- of all proposed structures, including their relationships to all property lines, topographic features and planned improvements. Buildings must be coded by type.
c. A tabular schedule, indicating in chart form:
   (1) Number and sizes of all dwelling units by building type
   (2) Number of parking spaces
   (3) Total square feet of gross building area
   (4) Percentage of the site covered by buildings, parking spaces and streets (See Design Standards, Page V -    )
d. Location of sewers, gas, water and electric utilities off-site and on-site
e. Utility and other easements

### 3. Typical Unit Plan and Floor Layouts

Drawings, at 1/4" scale, must be provided for all structures and show the dimensions of typical units, including furniture layouts in dwelling units and mechanical and electrical equipment. (See Design Standards, Page V -    .)

### 4. Elevations

Elevation drawings must be included for each building type. The drawings should indicate the nature of all exterior covering materials. Submissions offering alternative elevation treatments are encouraged.

5. Perspectives

Eye-level and aerial perspectives are required of typical buildings and groupings of buildings.

6. Wall Sections

Section drawings of typical walls at 3/4" scale or larger.

7. Brief Specification

The format for the brief spec is contained in sub-section J below.

8. Summary Cost Estimate

The development team is required to submit its first itemized estimate of construction costs as part of this submission. The *Cost Estimate Form*, which follows in sub-section J, may be used as the basis for this rough estimate. The architect may wish to use the Standard C.S.I. estimating form to complete this requirement. If the architect does not have an in-house estimating capability, outside assistance should be arranged. The expense of preparing estimates throughout the architectural review process (for schematic, preliminary plans, and working drawings) has been taken into account in the development of the Architect's Fee Schedule.

9. Schedule A of the Form 202 (See Page III - 16), except for rent levels.

If there is a possibility of soil condition problems, soil borings may be necessary at this stage.

*(ADDITIONAL SECTIONS TO FOLLOW)*

# VI. MINI-MULTI PROGRAM

*(TO FOLLOW)*

# VII. MHFA FORMS

*(TO FOLLOW)*

# TENTATIVE FAIR MARKET RENTS FOR NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION PORTIONS OF HUD'S SECTION 8 HOUSING PROGRAM[1]

(Including Minnesota Housing Finance Agency's Portion of Section 8 Program)

| MARKET AREA | STRUCTURE TYPE | NUMBER OF BEDROOMS | | | | |
|---|---|---|---|---|---|---|
| | | 0 | 1 | 2 | 3 | 4 or more |
| Minneapolis | Detached | - | - | 348 | 420 | 471 |
| | Semi-Detached/Row | - | 298 | 344 | 397 | 420 |
| | Walkup | 216 | 246 | 289 | 394 | - |
| | Elevator | 225 | 258 | 319 | - | - |
| Duluth | Detached | - | - | 324 | 390 | 442 |
| | Semi-Detached/Row | - | 259 | 317 | 350 | 372 |
| | Walkup | 193 | 215 | 272 | 302 | - |
| | Elevator | 236 | 275 | 347 | - | - |
| Mankato | Detached | - | - | 293 | 344 | 400 |
| | Semi-Detached/Row | - | 226 | 289 | 333 | 355 |
| | Walkup | 200 | 214 | 271 | 311 | - |
| | Elevator | 232 | 253 | 334 | - | - |
| Rochester | Detached | - | - | 309 | 374 | 426 |
| | Semi-Detached/Row | - | 248 | 297 | 373 | 395 |
| | Walkup | 192 | 211 | 255 | 321 | - |
| | Elevator | 242 | 274 | 284 | - | - |
| St. Cloud | Detached | - | - | 315 | 406 | 430 |
| | Semi-Detached/Row | - | 257 | 309 | 3[illegible] | 411 |
| | Walkup | 196 | 219 | 265 | 334 | - |
| | Elevator | 251 | 286 | 336 | - | - |
| St. Paul | Detached | - | - | 348 | 420 | 471 |
| | Semi-Detached/Row | - | 298 | 344 | 397 | 420 |
| | Walkup | 216 | 246 | 289 | 394 | - |
| | Elevator | 225 | 258 | 319 | - | - |
| Worthington | Detached | -- | - | 300 | 352 | 388 |
| | Semi-Detached/Row | - | 240 | 283 | 331 | 353 |
| | Walkup | 210 | 227 | 266 | 310 | - |
| | Elevator | 242 | 276 | 337 | - | - |

[1] The Fair Market Rents for (1) dwelling units designed for the elderly or handicapped are those for the appropriate size unit, not to exceed 2-bedroom, multiplied by 1.05 rounded to the next higher whole dollar, (2) congregate housing dwelling units are the same as for non-congregate units, and (3) single room occupancy dwelling units are those for 0 - Bedroom units of the same type.

Exhibit B

SECTION 8

INCOME LIMITS

SECTION 8 FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
SMSAS WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
| (MEDIAN INCOME - $11951) DULUTH-SUPERIOR, MN-WI | | | | | | | | |
| LOWER INCOMES | 6000 | 7650 | 8400 | 9550 | 10150 | 10750 | 11350 | 11950 |
| VERY LOW INCOMES | 3600 | 4800 | 5400 | 6000 | 6450 | 6950 | 7400 | 7900 |
| (MEDIAN INCOME - $12693) FARGO-MOORHEAD, ND-MN | | | | | | | | |
| LOWER INCOMES | 6350 | 8100 | 9150 | 10150 | 10800 | 11400 | 12050 | 12700 |
| VERY LOW INCOMES | 3800 | 5100 | 5700 | 6350 | 6850 | 7350 | 7850 | 8400 |
| (MEDIAN INCOME - $15613) MINNEAPOLIS-ST PAUL, MN | | | | | | | | |
| LOWER INCOMES | 7900 | 10000 | 11250 | 12500 | 13250 | 14050 | 14850 | 15400 |
| VERY LOW INCOMES | 4700 | 6250 | 7050 | 7800 | 8450 | 9050 | 9700 | 10300 |
| (MEDIAN INCOME - $14469) ROCHESTER, MN | | | | | | | | |
| LOWER INCOMES | 7250 | 9250 | 10400 | 11600 | 12300 | 13000 | 13750 | 14450 |
| VERY LOW INCOMES | 4350 | 5800 | 6500 | 7250 | 7800 | 8400 | 8950 | 9550 |
| (MEDIAN INCOME - $11397) ST CLOUD, MN | | | | | | | | |
| LOWER INCOMES | 5700 | 7300 | 8200 | 9100 | 9700 | 10250 | 10850 | 11400 |
| VERY LOW INCOMES | 3400 | 4550 | 5150 | 5700 | 6150 | 6600 | 7050 | 7500 |

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SECTION 8 FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
NON METROPOLITAN COUNTIES WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
| MN AITKIN (MEDIAN INCOME - $ 8166) | | | | | | | | |
| LOWER INCOMES | 4100 | 5250 | 5900 | 6550 | 6950 | 7350 | 7800 | 8200 |
| VERY LOW INCOMES | 2450 | 3250 | 3700 | 4100 | 4400 | 4750 | 5100 | 5400 |
| MN BECKER (MEDIAN INCOME - $ 9241) | | | | | | | | |
| LOWER INCOMES | 4600 | 5900 | 6650 | 7400 | 7850 | 8300 | 8800 | 9250 |
| VERY LOW INCOMES | 2750 | 3700 | [illegible] | 4600 | 5000 | 5350 | 5750 | 6100 |
| MN BELTRAMI (MEDIAN INCOME - $ 8915) | | | | | | | | |
| LOWER INCOMES | 4450 | 5700 | 6400 | 7150 | 7600 | 8000 | 8450 | 8900 |
| VERY LOW INCOMES | 2650 | 3550 | 4000 | 4450 | 4800 | 5150 | 5550 | 5900 |
| MN BIG STONE (MEDIAN INCOME - $ 9158) | | | | | | | | |
| LOWER INCOMES | 4600 | 5850 | 6600 | 7350 | 7800 | 8250 | 8700 | 9150 |
| VERY LOW INCOMES | 2750 | 3650 | 4100 | 4600 | 4950 | 5300 | 5700 | 6050 |
| MN BLUE EARTH (MEDIAN INCOME - $12656) | | | | | | | | |
| LOWER INCOMES | 6350 | 8100 | 9100 | 10100 | 10750 | 11400 | 12000 | 12650 |
| VERY LOW INCOMES | 3800 | 5050 | 5700 | 6350 | 6850 | 7350 | 7650 | 8350 |
| MN BROWN (MEDIAN INCOME - $11029) | | | | | | | | |
| LOWER INCOMES | 5500 | 7050 | 7950 | 8800 | 9350 | 9900 | 10450 | 11000 |
| VERY LOW INCOMES | 3300 | 4400 | 4950 | 5500 | 5950 | 6400 | 6850 | 7300 |
| MN CARLTON (MEDIAN INCOME - $11848) | | | | | | | | |
| LOWER INCOMES | 5900 | 7600 | 8550 | 9500 | 10050 | 10650 | 11250 | 11850 |
| VERY LOW INCOMES | 3650 | 4750 | 5350 | 5900 | 6400 | 6850 | 7350 | 7800 |
| MN CASS (MEDIAN INCOME - $ 6788) | | | | | | | | |
| LOWER INCOMES | 3400 | 4350 | 4900 | 5450 | 5750 | 6100 | 6450 | 6800 |
| VERY LOW INCOMES | 2050 | 2700 | 3050 | 3400 | 3650 | 3950 | 4200 | 4500 |
| MN CHIPPEWA (MEDIAN INCOME - $ 8917) | | | | | | | | |
| LOWER INCOMES | 4450 | 5700 | 6400 | 7150 | 7600 | 8050 | 8450 | 8900 |
| VERY LOW INCOMES | 2700 | 3550 | 4000 | 4450 | 4800 | 5150 | 5550 | 5900 |
| MN CLEARWATER (MEDIAN INCOME - $ 6575) | | | | | | | | |
| LOWER INCOMES | 3300 | 4200 | 4750 | 5250 | 5600 | 5900 | 6250 | 6600 |
| VERY LOW INCOMES | 1950 | 2650 | 2950 | 3300 | 3550 | 3800 | 4100 | 4350 |
| MN COOK (MEDIAN INCOME - $ 9673) | | | | | | | | |
| LOWER INCOMES | 4850 | 6200 | 6950 | 7750 | 8200 | 8700 | 9200 | 9650 |
| VERY LOW INCOMES | 2900 | 3850 | 4350 | 4850 | 5200 | 5600 | 6000 | 6400 |
| MN COTTONWOOD (MEDIAN INCOME - $10607) | | | | | | | | |
| LOWER INCOMES | 5300 | 6800 | 7650 | 8500 | 9000 | 9550 | 10100 | 10600 |
| VERY LOW INCOMES | 3200 | [illegible] | 4750 | 5300 | 5750 | 6150 | [illegible] | 7000 |



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SECTION 8 FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
NON METROPOLITAN COUNTIES WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
| MN CROW WING (MEDIAN INCOME - $10457) | | | | | | | | |
| LOWER INCOMES | 5250 | 6700 | 7550 | 8350 | 8900 | 9400 | 9950 | 10450 |
| VERY LOW INCOMES | 3150 | 4200 | 4700 | 5250 | 5650 | 6050 | 6500 | 6900 |
| MN DODGE (MEDIAN INCOME - $11527) | | | | | | | | |
| LOWER INCOMES | 5750 | 7400 | 8300 | 9200 | 9800 | 10350 | 10950 | 11550 |
| VERY LOW INCOMES | 3450 | 4600 | 5200 | 5750 | 6200 | 6700 | 7150 | 7600 |
| MN DOUGLAS (MEDIAN INCOME - $ 9140) | | | | | | | | |
| LOWER INCOMES | 4550 | 5850 | 6600 | 7300 | 7750 | 8250 | 8700 | 9150 |
| VERY LOW INCOMES | 2750 | 3650 | 4100 | 4550 | 4950 | 5300 | 5650 | 6050 |
| MN FARIBAULT (MEDIAN INCOME - $ 9983) | | | | | | | | |
| LOWER INCOMES | 5000 | 6400 | 7200 | 8000 | 8500 | 9000 | 9500 | 10000 |
| VERY LOW INCOMES | 3000 | 4000 | [illegible] | 5000 | 5400 | 5800 | 6200 | 6600 |
| MN FILLMORE (MEDIAN INCOME - $ 9335) | | | | | | | | |
| LOWER INCOMES | 4650 | 5950 | 6700 | 7450 | 7950 | 8400 | 8850 | 9350 |
| VERY LOW INCOMES | 2800 | 3750 | 4200 | 4650 | 5050 | 5400 | 5800 | 6150 |
| MN FREEBORN (MEDIAN INCOME - $11790) | | | | | | | | |
| LOWER INCOMES | 5900 | 7550 | 8500 | 9450 | 10000 | 10600 | 11200 | 11800 |
| VERY LOW INCOMES | 3550 | 4700 | 5300 | 5900 | 6350 | 6650 | 7300 | 7800 |
| MN GOODHUE (MEDIAN INCOME - $12855) | | | | | | | | |
| LOWER INCOMES | 6450 | 8250 | 9250 | 10300 | 10950 | 11550 | 12200 | 12850 |
| VERY LOW INCOMES | 3850 | 5150 | 5800 | 6450 | 6950 | 7450 | 7950 | 8500 |
| MN GRANT (MEDIAN INCOME - $ 7754) | | | | | | | | |
| LOWER INCOMES | 3900 | 4950 | 5600 | 6200 | 6600 | 7000 | 7350 | 7750 |
| VERY LOW INCOMES | 2350 | 3100 | 3500 | 3900 | 4200 | 4500 | 4800 | 5100 |
| MN HOUSTON (MEDIAN INCOME - $10102) | | | | | | | | |
| LOWER INCOMES | 5050 | 6450 | 7250 | 8100 | 8600 | 9100 | 9600 | 10100 |
| VERY LOW INCOMES | 3050 | 4050 | 4550 | 5050 | 5450 | 5850 | 6250 | 6650 |
| MN HUBBARD (MEDIAN INCOME - $ 7450) | | | | | | | | |
| LOWER INCOMES | 3750 | 4750 | 5350 | 5950 | 6350 | 6700 | 7100 | 7450 |
| VERY LOW INCOMES | 2250 | 3000 | 3350 | 3750 | 4000 | 4300 | 4600 | 4900 |
| MN ISANTI (MEDIAN INCOME - $12213) | | | | | | | | |
| LOWER INCOMES | 6100 | 7800 | 8800 | 9750 | 10400 | 11000 | 11600 | 12200 |
| VERY LOW INCOMES | 3650 | 4900 | 5500 | 6100 | 6600 | 7100 | 7550 | 8050 |
| MN ITASCA (MEDIAN INCOME - $10074) | | | | | | | | |
| LOWER INCOMES | 5050 | 6450 | 7250 | 8050 | [illegible] | 9050 | 9550 | 10050 |
| VERY LOW INCOMES | 3000 | 4050 | 4550 | 5050 | [illegible] | 5850 | 6250 | 6650 |

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SECTION 8 FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
NON METROPOLITAN COUNTIES WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
| MN JACKSON (MEDIAN INCOME - $ 9475) | | | | | | | | |
| LOWER INCOMES | 4750 | 6050 | 6800 | 7600 | 8050 | 8550 | 9000 | 9500 |
| VERY LOW INCOMES | 2850 | 3800 | 4250 | 4750 | 5100 | 5500 | 5850 | 6250 |
| MN KANABEC (MEDIAN INCOME - $10237) | | | | | | | | |
| LOWER INCOMES | 5100 | 6550 | 7350 | 8200 | 8700 | 9200 | 9750 | 10250 |
| VERY LOW INCOMES | 3050 | 4100 | 4600 | 5100 | 5550 | 5950 | 6350 | 6750 |
| MN KANDIYOHI (MEDIAN INCOME - $11545) | | | | | | | | |
| LOWER INCOMES | 5750 | 7400 | 8300 | 9250 | 9800 | 10400 | 10950 | 11550 |
| VERY LOW INCOMES | 3450 | 4600 | 5200 | 5750 | 6250 | 6700 | 7150 | 7600 |
| MN KITTSON (MEDIAN INCOME - $ 9492) | | | | | | | | |
| LOWER INCOMES | 4750 | 6050 | 6850 | 7600 | 8050 | 8550 | 9000 | 9600 |
| VERY LOW INCOMES | 2850 | 3800 | 4250 | 4750 | 5150 | 5500 | 5900 | 6250 |
| MN KOOCHICHING (MEDIAN INCOME - $11075) | | | | | | | | |
| LOWER INCOMES | 5550 | 7100 | 7950 | 8650 | 9400 | 9950 | 10500 | 11100 |
| VERY LOW INCOMES | 3300 | 4450 | 5000 | 5550 | 6000 | 6400 | 6850 | 7300 |
| MN LAC QUI PARL (MEDIAN INCOME - $ 8942) | | | | | | | | |
| LOWER INCOMES | 4450 | 5700 | 6450 | 7150 | 7600 | 8050 | 8500 | 8950 |
| VERY LOW INCOMES | 2700 | 3600 | 4000 | 4450 | 4850 | 5200 | 5550 | 5900 |
| MN LAKE (MEDIAN INCOME - $12456) | | | | | | | | |
| LOWER INCOMES | 6250 | 7950 | 8950 | 9950 | 10600 | 11200 | 11850 | 12450 |
| VERY LOW INCOMES | 3750 | 5000 | 5600 | 6250 | 6750 | 7200 | 7700 | 8200 |
| MN LAKE OF WOOD (MEDIAN INCOME - $ 8565) | | | | | | | | |
| LOWER INCOMES | 4300 | 5500 | 6150 | 6850 | 7300 | 7700 | 8150 | 8550 |
| VERY LOW INCOMES | 2550 | 3450 | 3850 | 4300 | 4650 | 4950 | 5300 | 5650 |
| MN LE SUEUR (MEDIAN INCOME - $10990) | | | | | | | | |
| LOWER INCOMES | 5500 | 7050 | 7900 | 8800 | 9350 | 9900 | 10450 | 11000 |
| VERY LOW INCOMES | 3300 | 4400 | 4950 | 5500 | 5950 | 6350 | 6600 | 7250 |
| MN LINCOLN (MEDIAN INCOME - $ 7176) | | | | | | | | |
| LOWER INCOMES | 3600 | 4600 | 5150 | 5750 | 6100 | 6450 | 6800 | 7200 |
| VERY LOW INCOMES | 2150 | 2850 | 3250 | 3600 | 3900 | 4150 | 4450 | 4750 |
| MN LYON (MEDIAN INCOME - $10954) | | | | | | | | |
| LOWER INCOMES | 5500 | 7000 | 7900 | 8750 | 9300 | 9850 | 10400 | 10950 |
| VERY LOW INCOMES | 3300 | 4400 | 4950 | 5500 | 5900 | 6350 | 6800 | 7250 |
| MN MCLEOD (MEDIAN INCOME - $11575) | | | | | | | | |
| LOWER INCOMES | 5800 | 7400 | 8350 | 9250 | 9850 | 10400 | 11000 | 11600 |
| VERY LOW INCOMES | 3450 | 4650 | 5200 | 5800 | 6250 | 6700 | 7200 | 7650 |

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SECTION 8 FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
NON METROPOLITAN COUNTIES WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
|---|---|---|---|---|---|---|---|---|
| MN MAHNOMEN (MEDIAN INCOME - $ 6841) | | | | | | | | |
| LOWER INCOMES | 4400 | 5650 | 6350 | 7050 | 7500 | 7950 | 8400 | 8850 |
| VERY LOW INCOMES | 2650 | 3550 | 4000 | 4400 | 4750 | 5150 | 5500 | 5850 |
| MN MARSHALL (MEDIAN INCOME - $ 8236) | | | | | | | | |
| LOWER INCOMES | 4100 | 5250 | 5950 | 6600 | 7000 | 7400 | 7800 | 8250 |
| VERY LOW INCOMES | 2450 | 3300 | 3700 | 4100 | 4450 | 4800 | 5100 | 5450 |
| MN MARTIN (MEDIAN INCOME - $10743) | | | | | | | | |
| LOWER INCOMES | 5350 | 6900 | 7750 | 8600 | 9150 | 9650 | 10200 | 10750 |
| VERY LOW INCOMES | 3200 | 4300 | 4850 | 5350 | 5800 | 6250 | 6650 | 7100 |
| MN MEEKER (MEDIAN INCOME - $10045) | | | | | | | | |
| LOWER INCOMES | 5000 | 6450 | 7250 | 8050 | 8550 | 9050 | 9550 | 10050 |
| VERY LOW INCOMES | 3000 | 4000 | 4500 | 5000 | 5400 | 5850 | 6250 | 6650 |
| MN MILLE LACS (MEDIAN INCOME - $ 9838) | | | | | | | | |
| LOWER INCOMES | 4900 | 6300 | 7100 | 7850 | 8350 | 8850 | 9350 | 9850 |
| VERY LOW INCOMES | 2950 | 3950 | 4450 | 4900 | 5300 | 5700 | 6100 | 6500 |
| MN MORRISON (MEDIAN INCOME - $ 9189) | | | | | | | | |
| LOWER INCOMES | 4600 | 5900 | 6600 | 7350 | 7800 | 8250 | 8750 | 9200 |
| VERY LOW INCOMES | 2750 | 3700 | 4150 | 4600 | 4950 | 5350 | 5700 | 6050 |
| MN MOWER (MEDIAN INCOME - $13905) | | | | | | | | |
| LOWER INCOMES | 6950 | 8900 | 10000 | 11100 | 11800 | 12500 | 13200 | 13900 |
| VERY LOW INCOMES | 4150 | 5550 | 6250 | 6950 | 7500 | 8050 | 8600 | 9200 |
| MN MURRAY (MEDIAN INCOME - $ 8666) | | | | | | | | |
| LOWER INCOMES | 4350 | 5550 | 6250 | 6950 | 7350 | 7800 | 8250 | 8650 |
| VERY LOW INCOMES | 2600 | 3450 | 3900 | 4350 | 4700 | 5050 | 5350 | 5700 |
| MN NICOLLET (MEDIAN INCOME - $12174) | | | | | | | | |
| LOWER INCOMES | 6100 | 7800 | 8750 | 9750 | 10350 | 10950 | 11650 | 12150 |
| VERY LOW INCOMES | 3650 | 4850 | 5500 | 6100 | 6550 | 7050 | 7550 | 8050 |
| MN NOBLES (MEDIAN INCOME - $10362) | | | | | | | | |
| LOWER INCOMES | 5200 | 6650 | 7450 | 8300 | 8800 | 9350 | 9850 | 10350 |
| VERY LOW INCOMES | 3100 | 4150 | 4650 | 5200 | 5600 | 6000 | 6400 | 6850 |
| MN NORMAN (MEDIAN INCOME - $ 7782) | | | | | | | | |
| LOWER INCOMES | 3900 | 5000 | 5600 | 6250 | 6600 | 7000 | 7400 | 7800 |
| VERY LOW INCOMES | 2350 | 3100 | 3500 | 3900 | 4200 | 4500 | 4800 | 5150 |
| MN OTTER TAIL (MEDIAN INCOME - $ 8441) | | | | | | | | |
| LOWER INCOMES | 4200 | 5400 | 6100 | 6750 | 7150 | 7600 | 8000 | 8450 |
| VERY LOW INCOMES | 2550 | 3400 | 3800 | 4200 | 4550 | 4900 | 5250 | 5550 |

Exhibit B

SECTION 8 FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
NON METROPOLITAN COUNTIES WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
|---|---|---|---|---|---|---|---|---|
| MN PENNINGTON (MEDIAN INCOME - $11302) | | | | | | | | |
| LOWER INCOMES | 5650 | 7250 | 8150 | 9050 | 9600 | 10150 | 10750 | 11300 |
| VERY LOW INCOMES | 3400 | 4500 | 5100 | 5650 | 6100 | 6550 | 7000 | 7450 |
| MN PINE (MEDIAN INCOME - $ 9007) | | | | | | | | |
| LOWER INCOMES | 4500 | 5750 | 6500 | 7200 | 7650 | 8100 | 8650 | 9000 |
| VERY LOW INCOMES | 2700 | 3600 | 4050 | 4500 | 4850 | 5200 | 5600 | 5950 |
| MN PIPESTONE (MEDIAN INCOME - $ 9258) | | | | | | | | |
| LOWER INCOMES | 4650 | 5950 | 6650 | 7400 | 7850 | 8350 | 8800 | 9250 |
| VERY LOW INCOMES | 2800 | 3700 | 4150 | 4650 | 5000 | 5350 | 5750 | 6100 |
| MN POLK (MEDIAN INCOME - $10509) | | | | | | | | |
| LOWER INCOMES | 5250 | 6700 | 7550 | 8400 | 8950 | 9450 | 10000 | 10500 |
| VERY LOW INCOMES | 3150 | 4200 | 4750 | 5250 | 5650 | 6100 | 6500 | 6950 |
| MN POPE (MEDIAN INCOME - $11153) | | | | | | | | |
| LOWER INCOMES | 5600 | 7150 | 8050 | 8900 | 9500 | 10050 | 10600 | 11150 |
| VERY LOW INCOMES | 3350 | 4450 | 5000 | 5600 | 6000 | 6450 | 6900 | 7350 |
| MN RED LAKE (MEDIAN INCOME - $ 7590) | | | | | | | | |
| LOWER INCOMES | 3800 | 4850 | 5450 | 6050 | 6450 | 6850 | 7200 | 7600 |
| VERY LOW INCOMES | 2300 | 3050 | 3400 | 3600 | 4100 | 4400 | 4700 | 5000 |
| MN REDWOOD (MEDIAN INCOME - $ 8587) | | | | | | | | |
| LOWER INCOMES | 4300 | 5500 | 6200 | 6850 | 7300 | 7750 | 8150 | 8600 |
| VERY LOW INCOMES | 2600 | 3450 | 3850 | 4300 | 4650 | 5000 | 5300 | 5650 |
| MN RENVILLE (MEDIAN INCOME - $ 8751) | | | | | | | | |
| LOWER INCOMES | 4400 | 5600 | 6300 | 7000 | 7450 | 7900 | 8300 | 8750 |
| VERY LOW INCOMES | 2650 | 3500 | 3950 | 4400 | 4750 | 5100 | 5450 | 5800 |
| MN RICE (MEDIAN INCOME - $12694) | | | | | | | | |
| LOWER INCOMES | 6350 | 8100 | 9150 | 10150 | 10800 | 11400 | 12050 | 12700 |
| VERY LOW INCOMES | 3800 | 5100 | 5700 | 6350 | 6850 | 7350 | 7850 | 8400 |
| MN ROCK (MEDIAN INCOME - $10938) | | | | | | | | |
| LOWER INCOMES | 5450 | 7000 | 7900 | 8750 | 9300 | 9850 | 10400 | 10950 |
| VERY LOW INCOMES | 3300 | 4400 | 4900 | 5450 | 5900 | 6350 | 6800 | 7200 |
| MN ROSEAU (MEDIAN INCOME - $ 9944) | | | | | | | | |
| LOWER INCOMES | 4950 | 6350 | 7150 | 7950 | 8450 | 8950 | 9450 | 9950 |
| VERY LOW INCOMES | 3000 | 4000 | 4450 | 4950 | 5350 | 5750 | 6150 | 6550 |
| MN SIBLEY (MEDIAN INCOME - $ 9890) | | | | | | | | |
| LOWER INCOMES | 4950 | 6350 | 7100 | 7900 | 8400 | 8900 | 9400 | 9900 |
| [illegible]RY LOW INCOMES | 2950 | 39[illegible] | 4450 | 4950 | 5350 | 5750 | 61[illegible] | 6550 |



4/75

Exhibit B

SECTION * FAMILY INCOME LIMIT COMPUTATIONS RELATED TO 1974 MEDIAN INCOMES
NON METROPOLITAN COUNTIES WITHIN THE INSURING JURISDICTION
MINNEAPOLIS-ST.PAUL,MINNESOTA AREA OFFICE

| | NUMBER OF PERSONS PER FAMILY ONE | TWO | THREE | FOUR | FIVE | SIX | SEVEN | EIGHT + |
|---|---|---|---|---|---|---|---|---|
| MN STEELE (MEDIAN INCOME - $12466) | | | | | | | | |
| LOWER INCOMES | 6250 | 8000 | 9000 | 9950 | 10600 | 11200 | 11650 | 12950 |
| VERY LOW INCOMES | 3750 | 5000 | 5600 | 6250 | 6750 | 7250 | 7750 | 8250 |
| MN STEVENS (MEDIAN INCOME - $10349) | | | | | | | | |
| LOWER INCOMES | 5150 | 6600 | 7450 | 8300 | 8800 | 9300 | 9850 | 10350 |
| VERY LOW INCOMES | 3100 | 4150 | 4650 | 5150 | 5600 | 6000 | 6400 | 6850 |
| MN SWIFT (MEDIAN INCOME - $ 8465) | | | | | | | | |
| LOWER INCOMES | 4250 | 5400 | 6100 | 6750 | 7200 | 7600 | 8050 | 8450 |
| VERY LOW INCOMES | 2550 | 3400 | 3800 | 4250 | 4550 | 4900 | 5250 | 5600 |
| MN TODD (MEDIAN INCOME - $ 7641) | | | | | | | | |
| LOWER INCOMES | 3800 | 4900 | 5500 | 6100 | 6500 | 6900 | 7250 | 7650 |
| VERY LOW INCOMES | 2300 | 3050 | 3450 | 3800 | 4150 | 4450 | 4750 | 5050 |
| MN TRAVERSE (MEDIAN INCOME - $ 8209) | | | | | | | | |
| LOWER INCOMES | 4100 | 5250 | 5900 | 6550 | 7000 | 7400 | 7800 | 8200 |
| VERY LOW INCOMES | 2450 | 3300 | 3700 | 4100 | 4450 | 4750 | 5100 | 5400 |
| MN WABASHA (MEDIAN INCOME - $10582) | | | | | | | | |
| LOWER INCOMES | 5300 | 6750 | 7600 | 8450 | 9000 | 9500 | 10050 | 10600 |
| VERY LOW INCOMES | 3150 | 4250 | 4750 | 5300 | 5700 | 6150 | 6550 | 7000 |
| MN WADENA (MEDIAN INCOME - $ 6987) | | | | | | | | |
| LOWER INCOMES | 4500 | 5750 | 6450 | 7200 | 7650 | 8100 | 8550 | 9000 |
| VERY LOW INCOMES | 2700 | 3600 | 4050 | 4500 | 4850 | 5200 | 5550 | 5950 |
| MN WASECA (MEDIAN INCOME - $11956) | | | | | | | | |
| LOWER INCOMES | 6000 | 7650 | 8600 | 9550 | 10150 | 10750 | 11350 | 11950 |
| VERY LOW INCOMES | 3600 | 4800 | 5400 | 6000 | 6450 | 6950 | 7400 | 7900 |
| MN WATONWAN (MEDIAN INCOME - $ 9722) | | | | | | | | |
| LOWER INCOMES | 4850 | 6200 | 7000 | 7800 | 8250 | 8750 | 9250 | 9700 |
| VERY LOW INCOMES | 2900 | 3900 | 4350 | 4850 | 5250 | 5650 | 6050 | 6400 |
| MN WILKIN (MEDIAN INCOME - $10131) | | | | | | | | |
| LOWER INCOMES | 5050 | 6500 | 7300 | 8100 | 8600 | 9100 | 9600 | 10150 |
| VERY LOW INCOMES | 3050 | 4050 | 4550 | 5050 | 5450 | 5900 | 6300 | 6700 |
| MN WINONA (MEDIAN INCOME - $11620) | | | | | | | | |
| LOWER INCOMES | 5800 | 7450 | 8350 | 9300 | 9900 | 10450 | 11050 | 11600 |
| VERY LOW INCOMES | 3500 | 4650 | 5250 | 5800 | 6250 | 6750 | 7200 | 7650 |
| MN YELLOW MEDIC (MEDIAN INCOME - $ 9673) | | | | | | | | |
| LOWER INCOMES | 4850 | 6200 | 6950 | 7750 | 8200 | 8700 | 9200 | 9650 |
| VERY LOW INCOMES | 2900 | 3850 | 4350 | 4850 | 5200 | 5600 | 6000 | 6400 |

Exhibit C

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Low Rent Public Housing
[24 CFR Part 1278]
[Docket No. R-74-309]

HOUSING ASSISTANCE PAYMENTS PROGRAM
STATE HOUSING FINANCE AND DEVELOPMENT AGENCIES

Notice of Proposed Rulemaking

PROPOSED RULES

1278.203 Basic Policies.

(h) *Site and neighborhood standards.* Proposed sites must meet the following standards:

(1) Adequate utilities (water, sewer, gas, and electricity) and streets shall be available to service the site.

(2) The site and neighborhood shall be suitable from the standpoint of facilitating and furthering full compliance with the applicable provisions of Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, Executive Order 11063, and HUD regulations issued pursuant thereto.

(3) The site shall promote greater choice of housing opportunities and avoid undue concentration of assisted persons in areas containing a high proportion of lower-income persons.

(4) The site shall be free from serious adverse environmental conditions, or there shall be evidence that any such conditions will be corrected by the time the housing is completed. (For new construction projects, see paragraph (h)(12) of this section.)

(5) The site shall comply with any applicable conditions in any HUD approved Local Housing Assistance Plan, if applicable under the provisions of 1278.304(a).

(6) The housing shall be accessible to social, recreational, educational, commercial, and health facilities and services, and other municipal facilities and services that are at least equivalent to those typically found in neighborhoods consisting largely of unsibsidized, standard housing of similar market rents.

(7) Travel time and cost via public transportation or private automobile, from the neighborhood to places of employment providing a range of jobs for lower-income workers, shall not be excessive. (While it is important that elderly housing not be totally isolated from employment opportunities, this requirement need not be adhered to rigidly for such projects.)

(8) The project may not be built on a site which has occupants unless the relocation requirements referred to in 1278.203(i) are met.

(9) The project may not be built in an area that has been identified by HUD as having special flood hazards and in which the sale of flood insurance has been made available under the National Flood Insurance Act of 1968, unless the project is covered by flood insurance as required by the Flood Disaster Protection Act of 1973, and it meets any relevant HUD standards and local requirements.

(10) For new construction projects, the site shall be adequate in size, exposure and contour to accommodate the number and type of units proposed.

(11) For new construction projects, the site shall not be located in:

(i) An area of minority concentration unless (A) sufficient, comparable opportunities exist for housing for minority families, in the income range to be served by the proposed project, outside areas of minority concentration, or (B) the project is necessary to meet overriding housing needs which cannot otherwise feasibly be met in that housing market area. (An "overriding need" may not serve as the basis for determining that a site is acceptable if the only reason the need cannot otherwise feasibly be met is that discrimination on the basis of race, color, religion, creed, sex, or national origin renders sites outside areas of minority concentration unavailable.)

(ii) A racially mixed area if the project will cause a significant increase in the proportion of minority to non-minority residents in the area.

(12) For new construction projects, the site shall be free from adverse environmental conditions, natural or manmade, such as instability, flooding, septic tank back-ups, sewage hazards, or mudslides; harmful air pollution, smoke or dust; excessive noise, vibration or vehicular traffic; rodent or vermin infestation; or fire hazards. The neighborhood must not be one which is seriously detrimental to family life or in which substandard dwellings or other undesirable elements predominate, unless there is actively in progress a concerted program to remedy the undesirable conditions.

FEDERAL REGISTER, VOL. 39, NO. 236 - FRIDAY, DECEMBER 6, 1974 minnesota housing finance agency

## PROJECT SELECTION CRITERIA

The following criteria will be reviewed and evaluated by the Minnesota Housing Finance Agency to determine the extent to which the proposed project complies with the Agency's requirements:

1.) The existence of a need for the proposed project in the area in which the development is proposed.

2.) The provision of housing opportunities for minority families.

3.) The relationship of the proposed project to orderly growth and development in the area.

4.) The impact of the proposed development on the physical environment of the neighborhood.

5.) The capacity of the housing sponsor to proceed promptly to the construction and completion of the proposed project.

6.) The potential of the proposed housing project for creating minority employment and business opportunities.

7.) The effect the proposed housing project will have in eliminating substandard housing and preventing the recurrence of such conditions.

8.) The extent to which the proposed housing project will reduce the cost of mortgage financing or rentals of housing for low and moderate income families.

9.) The extent to which the proposed housing project will house persons of varied economic means and of a wide range of income.

10.) The relationship of the proposed housing project to proper planning and its relationship to public facilities, sources of employment and services including public transportation, public facilities, and public utilities essential to orderly growth.

11.) The relationship of the proposed housing project to the housing needs within the state and within the particular area of concern and the relationship of the housing project to any comprehensive plans, policies, procedures and programs adopted and approved according to law by an agency of state or local government acting pursuant to Legislative authority, including but not limited to the plans, policies, procedures and programs of regional development commissions and the Metropolitan Council.

12.) Whether a mortgage loan would otherwise be available, wholly or in part, from a private lender upon equivalent terms and conditions.

13.) In the case of a housing sponsor which is a limited dividend entity, whether the rate of return on the investment in the proposed housing project is reasonable in light of the then existing conditions in the housing industry and financial markets and in the rates of return then prescribed by other governmental agencies.

14.) The assistance which the proposed housing project will provide in fulfilling the purposes of the Minnesota Housing Finance Agency Law of 1971.

Exhibit E

# COMMUNITY DEVELOPMENT BLOCK GRANTS

## (FY 1975 - FY 1980)

### Entitlement Cities

The following cities under the act are entitled to specific fund allocations by virtue of having past participation in HUD redevelopment programs or by meeting the act's requirements as "metropolitan cities."

St. Paul
Minneapolis
Duluth
Mankato
South St. Paul
Bloomington
Rochester
St. Cloud
St. Louis Park
Moorhead
Austin
Willmar
Hopkins
Albert Lea
Winona
East Grand Forks
Pipestone
Hibbing
Le Sueur
Chisholm
Montevideo

MICROGRAPHIC SERVICES UNIT
DEPARTMENT OF ADMINISTRATION

## STATE OF MINNESOTA

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Daniel M. Sunder
CAMERA OPERATOR

RM-00062-01