

State of Minnesota  
Minnesota Housing Finance Agency

In the Matter of the Proposed Rules Relating to  
Purchase and Rehabilitation or Refinance and  
Rehabilitation Mortgage Loans

**Statement of Need and Reasonableness**  
**4900.2005**

Minnesota Statutes § 462A.05, subdivision 14 establishes that the Minnesota Housing Finance Agency (Agency) may agree to purchase, make or otherwise participate in the making, and may enter into commitments for the purchase, making or participation in the making, of eligible loans to persons and families of low and moderate income, for the rehabilitation of existing residential housing owned by them. Among other things, the statute also provides that such eligible loans may also refinance existing indebtedness secured by the property if the refinancing is determined by the Agency to be unnecessary to permit the owner to meet the owner's housing costs without expending an unreasonable portion of the owner's income thereon.

The current rule was promulgated three years ago under the above-referenced statute during the development and implementation of a mortgage loan program whereby eligible borrowers may either purchase and rehabilitate or refinance and rehabilitate a home through an execution of a single set of mortgage documents. As opposed to many Agency programs in which mortgage interest rates are subsidized, this program was developed at market interest rates. It was and is felt that a program of this nature aids in the preservation of the existing housing stock in neighborhoods and communities throughout the state. No comparable product was or is available from private lenders upon equivalent terms and conditions.

The program developed under the statute and administrative rules was "demonstration" in nature. In light of experience to date under the program, the Agency is hereby proposing changes to administrative rule 4900.2005 to improve the program from both the standpoint of lender participants and the standpoint of potential borrowers.

First, the Agency proposes a change to the minimum rehabilitation requirement in subpart 2 of the administrative rule. Previously, it was required that the rehabilitation be performed in an amount of 15% of the purchase price of the property. For properties in Metropolitan Statistical Areas, it is proposed that the minimum rehabilitation shall be \$5,000 and for properties in Greater Minnesota it is proposed that the minimum rehabilitation requirement shall be the lesser of \$5,000 or 15% of the value of the property.

Originally, the 15% rehabilitation requirement was imposed to provide that the rehabilitation be "substantial enough" to effect the program purposes for which the rules were being promulgated. It was felt that other affordable alternative forms of financing were available for amounts of rehabilitation under this level.

However, under program operation, it was learned that the minimum rehabilitation requirement was forcing individuals in communities with properties of higher value to

consider rehabilitation they didn't need so that the dollar amount of rehabilitation was high enough to receive program financing. As such higher value properties are almost always found in Metropolitan Statistical Areas, it was felt that a new minimum rehabilitation threshold would better serve the purposes of the program. In essence, this change provides greater flexibility for program applicants as well as addresses regional differences in real estate markets for homes that may be eligible under the program.

Second, it is recommended that the current subpart 4 pertaining to the "scope of rehabilitation" be deleted. In the development and delivery of this program, the Agency has required mortgage insurance from government or private sources (i.e., FHA insurance, private mortgage insurance) to protect its risk under each mortgage loan. The material contained in the "scope of rehabilitation" subpart is also an area that is covered by various mortgage insuring entities and, thus, it is subject to change by these entities which is beyond the Agency's control. Furthermore, the requirements between some of these entities vary. As opposed to predicting what the requirements of these entities might be from time to time and running the risk of having incompatible requirements in rule, the Agency proposes deletion of this rule so that it has the flexibility to meet the varying requirements of the mortgage insuring entities.

Third, current subpart 5 under the administrative rule pertains to borrower eligibility and subpart 5A establishes adjusted income limits for the program. The proposed administrative rule increases the adjusted income limit from 100% to 115% of the greater of state or area median income as determined and adjusted from time to time by the United States Department of Housing and Urban Development, and increases the income limits in "targeted neighborhoods" from 115% to 150% of the same index. Past program inquiries have indicated that individuals and families of slightly higher income are attracted to this program than other Agency program offerings as both the mortgage product and the activity contemplated by same (i.e., purchase and rehabilitation or refinance and rehabilitation) are more complex. Notwithstanding this fact, the Agency believes that an income limit is appropriate to meet the requirement of statute that eligible borrowers shall be of low and moderate income. As a result, the rule adopts the income limits recognized in federal statute governing mortgage revenue bonds as serving "low and moderate income" as an appropriate upper limit to the basic program. The "target neighborhood" exception is provided to assist city officials in expanding their market to aid in housing preservation efforts within specific neighborhoods while still providing that moderate incomes are served. The Agency is particularly comfortable with these higher income limits in that the financing provided under the program is unsubsidized and market rate.

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