STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

Proposed Amendment to and Adoption of Rules Governing the Home Improvement Grant Program and Rehabilitation Loan Program Without a Public Hearing.

STATEMENT OF

NEED AND REASONABLENESS

The Minnesota Housing Finance Agency ("Agency") is authorized in Minn. Stat. §462A.06, Subdivisions 4 and 11 to promulgate rules. Since 1976, the Agency has operated a Home Improvement Grant Program pursuant to Minn. Stat. Section 462A.05, Subdivision 15, and Chapter Seven of the Agency's rules with funds appropriated by the Minnesota Legislature. Funding for the Home Improvement Grant Program ended with the appropriation of the 1979-80 biennium. Laws 1979, Chapter 327, Section 13, Subdivision 2. In 1981 the Legislature, in Laws 1981, Chapter 306, Section 5, created a new Rehabilitation Loan Program, to be operated with appropriated money. The appropriation is found in Laws 1981, Section 21 (a). The language in Laws 1981, Chapter 306, Section 5, is similar in many respects to that of Minn. Stat. Section 462A.05, Subdivision 15, since the program will function as a successor to the Home Improvement Grant Program.

The proposed rules amend Chapter Seven of the Agency's rules (12 MCAR §§ 3.061 to 3.072) and certain definitions in the Agency's rules to include the new Rehabilitation Loan Program within the scope of the Chapter. It is reasonable to expand the Home Improvement Grant Program rules to include the Rental Rehabilitation Loan Program because the two programs have similar authorizing statutes, will be administered by similar (and in many instances identical) Administering Entities, and are the two programs of the Agency for rehabilitation funded entirely by money appropriated by the Legislature. The rules will remain in effect for both programs since (i) pursuant to Minn. Stat. § 462A.21, Subdivision 10, appropriations to the Agency do not lapse, and it will be possible for the Agency to continue the Home Improvement Grant Program during the period in which the new program will operate and (ii) the Legislature may at some future date appropriate additional money for the Home Improvement Grant Program.

12 MCAR § 3.0020.3.

It is necessary to establish an income limit for the new Rental Rehabilitation Loan Program. Since the program is a replacement for the Home Improvement Grant Program and is intended to serve the same population that the Home Improvement Grant Program has served, it is reasonable to use the income limit currently established for the Home Improvement Grant Program.

12 MCAR § 3.002 T.

Since the Agency is going to employ similar Administering Entities for the Rehabilitation Loan Program as have been used for the Home Improvement Grant Program, it is both necessary and reasonable to expand the definition of Administering Entity.

12 MCAR § 3.061.

It is necessary and reasonable to outline the expanded scope of the rules and to define for the purpose of Chapter Seven the two types of loans authorized by Laws 1981, Chapter 306, Section 5.

The Agency is authorized by Laws 1981, Chapter 306, Section 5 to make loans with or without interest or periodic payments. It is necessary to distinguish between the two. It is reasonable to call those loans with interest and periodic payments "Flexible Loans" and those loans without interest or periodic payments "Deferred Loans".

The Agency intends to make an effort to increase the availability of appropriated dollars available to assist the population served by Chapter Seven by purchasing from the proceeds of bonds sold to finance the Home Improvement Loan Program under Chapter Six those Flexible Loans where the borrower has demonstrated through a period of regular payment that he or she is a reasonable credit risk, as required in 12 MCAR § 3.051.C. In order to make the loan purchasable under Chapter Six, it is necessary and reasonable to make the requirements of Chapter Six apply to recipients of a Flexible Loan. Since the principal difference between a borrower under Chapter Six and Chapter Seven who qualifies under the income limits of both programs will be that Chapter Seven has no requirement that a borrower be a reasonable credit risk and since the Agency intends to permit a borrower to obtain a Rehabilitation Loan under Chapter Seven and establish that they are a reasonable credit risk through regular payment on the loan, it is necessary and reasonable to exclude the reasonable credit risk standard from the rule.

Note all recipients of a flexible loan will have their loans transferred under Chapter Six. There is no equivalent to the 15 years of age standard in 12 MCAR § 3.051 D in Chapter Seven, and it is necessary to exclude the 15 year standard under this rule if the Agency does not wish it to apply to flexible loans, and it is reasonable to do so.

12 MCAR § 3.062.

This statement of need has already addressed why it is necessary and reasonable to expand the scope of Chapter 7 to include rehabilitation loans. Therefore, the necessity and reasonableness of the technical amendments which are needed for the addition of rehabilitation loans to the remaining sections of Chapter Seven will not be addressed further in this statement.

In § 3.062 A, the Agency has determined over the life of the Home Improvement Grant Program that a 45 day period for receiving requests for reservation of funds is excessive. The Agency believes that a 30 day period is reasonable.

In § 3.062B, a number of changes are proposed. Because of the reduced level of funding as a result of recent budget cutbacks, the Agency believes it is necessary and reasonable to go from a 12 month contract with Administering Entities to a not more than 24 month contract so that an Administering Entity which does not receive sufficient funds to operate a 24 month program can submit a request for funding specifying a shorter period.

The old paragraphs 6 and 7 of § 3.062B have not produced information useful to the Agency in selecting Administering Entities. Therefore, the Agency finds it necessary and reasonable to eliminate the requirements.

12 MCAR § 3.063.

The Agency has found that the requirement of § 3.063 A 2 that a mobile home owner have resided in the structure at the present location for a period of one year to be excessively restrictive. It has resulted in particularly harsh results with persons who lived in the same location, but replaced one mobile home with another, or who moved a mobile home to a new site. The Agency believes that it is necessary and reasonable to eliminate the requirement.

12 MCAR § 3.064.

The change to § 3.064A is necessary and reasonable because it is consistent with the current statutory provisions for both affected programs under Minn. Stat. § 462A.05, Subdivision 15 and Laws 1981, Chapter 306, Section 5.

Since the Agency will be making both flexible loans and deferred loans with money appropriated for the Rehabilitation Loan Program, it is necessary in § 3.064C to determine which persons will receive the two types of loans. The Agency has found that it is not practical to process loan payments of less than $10 per month. It is reasonable to have those recipients who are capable of making a monthly loan payment of $10/month or more receive a flexible loan and those recipients who cannot receive a deferred loan.

12 MCAR § 3.065.

The deletions in this section are necessary and reasonable because the Agency has determined in the operation of the Home Improvement Grant Program that the provisions are not necessary for the operation of the program.

12 MCAR § 3.066.

The change to § 3.066 D is necessary and reasonable because the Agency has found that defects to the roof or foundation systems have an effect much like failure of the plumbing, heating, or electrical systems in that the house may become unlivable until the defects are corrected, and that, therefore, the prohibition on a second grant for a five year period should not apply.

12 MCAR § 3.067.

It is necessary and reasonable to delete the prior written approval requirement in § 3.067F because the Agency has found it to be unnecessary and administratively burdensome in the operation of the Home Improvement Grant Program.

§ 3.067G is necessary because the Agency intends to permit accessibility improvements to be made with funds provided under Chapter seven. It is reasonable to define accessibility improvements in the same manner as already defined in 12 MCAR § 3.071B.

It is reasonable to require the beneficiary of accessibility improvements to occupy the dwelling as a principal residence since there are limited resources available and the Agency cannot afford to fund improvements where use will be less than full time. It is reasonable to include architectural and engineering costs as eligible improvements in the case of accessibility improvements because they involve unique design and engineering considerations, and improperly constructed accessibility improvements are often of little or no value for the intended purpose.

12 MCAR § 3.068.

The amendments to § 3.068A are necessary to conform to the existing Minn. Stat. Section 462A.21, Subdivision 4a.

The new § 3.068 B is necessary to implement the repayment requirements of Laws 1981, Section 306, Subdivision 5. The provision is similar to that provided for Home Improvement Grants. Deferred loans are made without interest or periodic payments. The statute makes it clear that if the specified events have not occurred within ten years no repayment obligation will exist. It is reasonable to require repayment of the loan during the first ten years if the circumstances specified in the statute arise since the aid is in the form of a loan to the qualified person or family, and the benefit should not pass on to other individuals.

12 MCAR § 3.070.

This amendment is necessary because the Agency has found the existing rule to be administratively unworkable. The criteria in the new rule for emergency grants or loans are the same as those which govern the making of additional grants or loans under 12 MCAR

§ 3.066D. It is reasonable to use the same criteria in both cases since the reason for the two rules is similar, and it makes it easier for Administering Entities to understand the program.

It is necessary and reasonable to delete reference to the Accessibility Improvement Fund since Accessibility Improvements will be made from that fund and not from emergency grants or loans.

Since there has been a serious reduction in funds appropriated by the Legislature for the Chapter seven programs, it is necessary and reasonable to limit emergency grants and loans to cover the specific emergency items and not permit other deficiencies in the dwelling to be corrected at the same time.

12 MCAR § 3.0701.

In the 1981 legislative session, the Legislature did not appropriate additional money for the accessibility programs and, in Laws 1981, Chapter 306, Section 10, authorized the Agency to transfer unencumbered funds among various appropriated accounts. Since the Agency has the authority to fund an Accessibility Improvement Fund without funds appropriated by the Legislature for that purpose, it is necessary and reasonable to delete that portion of 12 MCAR § 3.0701.

12 MCAR § 3.071A.

This is a technical amendment related to the amendment in § 3.067G.