

STATE OF MINNESOTA
MINNESOTA HOUSING FINANCE AGENCY

In the Matter of the Proposed
Permanent Rules Relating to the
Homeownership Assistance Fund;
Downpayment Assistance Program

Statement of Need
and Reasonableness

4900.1340

Minnesota Statutes Section 462A.21, Subdivision 8, authorizes the Minnesota Housing Finance Agency (MHFA) to establish a Homeownership Assistance Fund (HAF) on terms and conditions it deems advisable to assist persons of low and moderate income in the purchase of affordable housing. The program has been established to assist eligible recipients in paying installments of eligible loans for affordable housing and in providing the required equity investment enabling such persons to purchase an affordable home.

Minnesota Rules 4900.1340 governs downpayment assistance that may be provided under HAF that enables eligible recipients to receive a portion of the required equity investment for a home to be financed under MHFA's mortgage revenue bond program. Current rules for the program were designed to work primarily with insured conventional mortgage loans. These rules provide that the amount of the downpayment assistance loan available under HAF shall equal the amount by which the sum of the downpayment, closing costs, expenses, and origination fees exceeds 5% of the purchase price of the dwelling, but such amount shall not exceed the lesser of 50% of the downpayment or \$1,500. The language requiring a 5% cash investment was inserted specifically to meet the requirements of private mortgage insurance entities that insure high loan-to-value ratio mortgage loans. However, for a variety of reasons, the percentage of MHFA loans originated with private mortgage insurance has decreased from 100% to under 30% during the past three years. The vast majority of MHFA loans are now FHA insured.

In light of the above, and in light of the fact that a significant need has been observed among FHA borrowers for downpayment assistance, it is hereby proposed that the requirement that at least 5% of the purchase price of the dwelling be paid into the transaction be removed. Under the proposed rule, the amount of the downpayment assistance loan shall equal the maximum amount allowable under the applicable mortgage insurance program, but it shall not exceed the lesser of 50% of the downpayment or \$1,500. This language will remove the restrictions under current rule that are specifically designed to meet the requirements of private mortgage insuring entities and will enable the downpayment assistance loan program to be more compatible

with FHA insured loans. However, the rule has also been designed so that the program may continue to meet the needs of insured conventional borrowers by requiring that downpayment assistance loans must meet the requirements of applicable mortgage insurance programs.

The proposed rule also clarifies the eligible costs and expenses for which the downpayment assistance loan may be used. However, as the costs and expenses connected with the downpayment and closing of a mortgage loan are varied and numerous, the rule does provide MHFA with the ability to identify the various costs and expenses to which the downpayment assistance loan may be applied.

MHFA is mindful of the provisions of Section 14.115 of Minnesota Statutes, entitled "Small Business Considerations in Rulemaking," but since the recipients of HAF loans under the proposed regulation must be natural persons and families of low and moderate income who purchase a home with a first mortgage from MHFA, the regulation does not affect small businesses directly, and the said law, by its terms, is inapplicable to this proposed regulation. Further, to the extent that HAF loans which are a subject of this regulation may have an indirect affect on small businesses, the affect of this proposed rule is to make such loans more capable of feasible underwriting and, consequently, more obtainable; and, as a result, the proposed rule has no negative affect on small businesses.