

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

4900.2000 through 4900.2000:

Minnesota Statutes, Section 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 necessary to permit the owner to meet the owners' housing costs without expending an unreasonable portion of the owners' income thereon.

Recently, in a review of housing needs throughout the State, the Governor's Commission on Affordable Housing in the 1990's recommended that the Agency develop and implement a mortgage loan program whereby eligible borrowers may either purchase and rehabilitate or refinance and rehabilitate a home through the execution of a single set of mortgage documents. It was noted by the Commission that a program of this nature would aid in preservation of the existing housing stock, and that no comparable product was available from private lenders upon equivalent terms and conditions. The proposed rule has been developed under the above referenced statute to implement the mandate of the Commission.

Proposed Minnesota Rules 4900.2000, subparts 1 through 3 provide the definitions of both a purchase and rehabilitation mortgage loan and a refinance and rehabilitation mortgage loan. Under the definitions, a borrower may either purchase an existing home or refinance his or her current home and provide for eligible rehabilitation of the home through execution of a single set of mortgage documents.

Proposed Minnesota Rule 4900.2005, subpart 1 specifies that an eligible property must be an existing one to four family residential dwelling located in Minnesota. Under industry standards, a residential property typically does not exceed one to four units. Mobile homes and trailers are not eligible for mortgage loans under these Rules as prudent lenders typically do not consider them to be adequate security for long-term mortgage financing.

Proposed Minnesota Rule 4900.2005, subpart 2 provides for a minimum level of rehabilitation to be eligible for a mortgage loan under these Rules. Depending on whether the mortgage loan is either to effect a purchase or refinance, minimum rehabilitation of 15% of either the purchase price or the value of the property is required. It was determined that amounts of rehabilitation under 15% were not substantial enough to effect the purposes for which these Rules were being promulgated and that affordable alternative forms of financing were available for amounts of rehabilitation under this level.

Proposed Minnesota Rule 4900.2005, subpart 3 specifies eligible rehabilitation. Specific types of improvements, the fact that each improvement must be a permanent improvement, and that all improvements must be made in compliance with local standards or codes are established in this section. Eligible rehabilitation under subpart 3 was developed to be consistent with the Administrative Rules governing other Agency rehabilitation programs as well as Minnesota Statutes 462A.05, subdivision 14.

Proposed Minnesota Rule 4900.2005, subpart 4 covers the scope of rehabilitation allowed. Generally, the rule provides that if the scope of work is greater than or equal to \$5000.00, a reputable contractor must complete the work, and that bids for such work must be provided in specified form. This rule was established to protect both proposed borrowers and the Agency in increasing the likelihood that rehabilitation work will be completed in accordance with plans and specifications at the cost anticipated.

Proposed Minnesota Rule 4900.2005, subpart 5 covers borrower eligibility. To meet the provisions of the statute that eligible borrowers shall be of low and moderate income, the Rule establishes that adjusted income for borrowers may not exceed 100% of the greater of state or area median income as determined from time to time by the United States Department of Housing and Urban Development (HUD). This measure was chosen to assure that eligible borrowers would be drawn from the lower 50% of the universe of incomes as determined by an unbiased measure. However, pursuant to discussions with local government officials, the Rule provides that borrowers that wish to purchase homes in certain targeted neighborhoods may have incomes that may not exceed 115% of the greater of state or area median income as determined and adjusted from time to time by HUD. This was added to assist city officials in expanding their market to aid in housing preservation efforts within specific neighborhoods while still providing that only moderate incomes are served. The proposed Rule also provides that each borrower shall occupy the residence as his or her primary residence and that borrowers must be prudent lending risks.

Proposed Minnesota Rule 4900.2005, subpart 6 establishes that the maximum mortgage amount for any mortgage loan under this rule may not exceed the maximum mortgage amount for applicable areas of the state for mortgage loans to be insured by the Federal Housing Administration (FHA) as determined and adjusted from time to time. FHA establishes their maximum mortgage amounts with an emphasis towards financing modest cost housing. Again, this measure was chosen as it is objective and unbiased.

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