

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
August 20, 2018

MINNESOTA HOUSING FINANCE AGENCY
480 Cedar Street
St. Paul, Minnesota 55101

RESOLUTION NO. 78 -

RESOLUTION ADOPTING TEMPORARY EMERGENCY RULES
GOVERNING THE HOMEOWNERSHIP ASSISTANCE FUND PROGRAM

WHEREAS, on December 22, 1977 the Board adopted proposed temporary regulations for the Homeownership Assistance Fund Program; and

WHEREAS, said temporary regulations were published in the State Register on January 9, 1978; and

WHEREAS, more than 20 days have elapsed from said publication date without any modifications to said temporary emergency rules having been proposed;

THEREFORE, BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

That the temporary rules governing the Homeownership Assistance Fund Program be and they hereby are adopted as temporary emergency rules pursuant to Minn. Stat. §15.0512, Subd. 5, and that James Dlugosch, the Executive Director of the Minnesota Housing Finance Agency be and he hereby is authorized and directed to perform all acts required for the promulgation of said temporary emergency rules, including without limitation submission of said rules to the Attorney General of the State of Minnesota.

Adopted by the Minnesota Housing
Finance Agency this 23rd day of
February, 1978.

By Demetrius G. Jelatis
Chairman

Attest: Mark Kaplan

Minnesota Housing Finance Agency

Proposed Rules Governing the
Homeownership Assistance Fund Program

Chapter 11 - Homeownership Assistance Fund

MHFA 131 - Eligible Recipients of Homeownership Assistance Fund Loans

To qualify for a Homeownership Assistance Fund loan, a recipient must satisfy the requirements of MHFA 36 for a Limited-Unit Development Mortgage Loan. No recipient shall have held any ownership interest (either under fee title or by contract for deed) in any residential dwelling within two years prior to the date of the application for the Homeownership Assistance Fund loan.

MHFA 132 - General Requirements of Homeownership Assistance Fund Loans

A. The property to be purchased with the assistance of a Homeownership Assistance Fund loan must be a newly-constructed or existing single family residential dwelling located within the State of Minnesota.

B. The purchase of the dwelling must be financed primarily through a Limited-Unit Development Mortgage Loan.

C. The recipient shall obtain and furnish to the Agency all information reasonably required to demonstrate the recipient's eligibility for both a Homeownership Assistance Fund loan and a Limited-Unit Development Mortgage Loan.

D. Each Homeownership Assistance Fund loan shall be secured by a second mortgage on the property to be purchased, which property must otherwise be free and clear of any lien, charge, or encumbrance other than the Limited-Unit Development Mortgage.

E. A Homeownership Assistance Fund loan shall be deemed in default if the recipient defaults in the timely observance and performance of any condition or covenant of the Limited-Unit Development Mortgage Loan or of the Homeownership Assistance Fund loan, or sells, assigns, rents, or transfers the property, whether by deed, contract for deed, or otherwise. A transfer of the property to a surviving

joint tenant, if any, by reason of the death of the recipient shall not constitute a default.

F. In the event of default, the Homeownership Assistance Fund loan shall become immediately due and payable in its entirety, at the option of the Agency, and shall be subject to interest from the date of default until the date of payment at that rate of interest which is applicable to the Limited-Unit Development Mortgage on the property.

MHFA 133 - Homeownership Assistance Fund-Monthly Assistance

The Agency may provide eligible recipients interest-free Monthly Assistance loans in the form of monthly payments of a portion of the principal and interest installment due on the Limited-Unit Development Mortgage on qualifying property. Such payments shall not exceed $75 per month and shall decrease by $5 per month (or $60 per year) each year. The maximum amount of Monthly Assistance to which a recipient is originally entitled shall be as follows:

Line	Annual Adjusted Income (per MHFA 2(n)) not exceeding	Minimum Percentage of Borrowers' Adjusted Income required to be paid toward monthly Principal and Interest Payment	Initial Maximum HAF Monthly Assistance
	Column One	Column two	Column three
1	8,000	15%	$75
2	8,500	15.5%	75
3	9,000	16%	75
4	9,500	16.5%	75
5	10,000	17%	75
6	10,500	17.5%	65
7	11,000	18%	55
8	11,500	18.5%	45
9	12,000	19%	35
10	12,500	19.5%	25
11	13,000	20%	15
12	16,000	N/A	0

MHFA 134 - Homeownership Assistance Fund-Downpayment Assistance

The Agency may provide interest-free Downpayment Assistance loans to eligible recipients who are determined, on the basis of normal credit procedures, to lack the cash or land equity necessary to pay the required downpayment, plus closing costs, expenses, and origination fees on the dwelling to be purchased. The amount of the Downpayment Assistance loan shall equal the amount by which the sum of the downpayment, closing costs, expenses, and origination fees exceeds five percent of the purchase price of the dwelling, but shall not exceed the lesser of 50 percent of the downpayment or $1,000.

MHFA 135 - Repayment

Unless earlier repayment is required as the result of default, repayment of the aggregate amount of Monthly Assistance and Downpayment Assistance loans shall commence when the Monthly Assistance payments have declined to zero. Repayment shall be at the rate of $10 per month for the first year and shall increase by $10 per month (or $120 per year) each year until the total Homeownership Assistance Fund loan has been repaid.

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IRENE SCOTT

March 23, 1978

Mr. Steve Mahalchick
Hearing Examiner
Office of Hearing Examiners
Room 300
1745 University Avenue
St. Paul, Minnesota 55104

Dear Mr. Mahalchick:

In response to a suggestion from the office of the Attorney General, the Minnesota Housing Finance Agency has proposed a modification to MHFA 133 which will clarify the basis on which the Agency will determine the initial maximum monthly assistance available for persons and families within various income ranges.

The HAF Program is currently being administered by the Agency under temporary emergency rules. Under these rules, the Agency has set up a schedule of monthly assistance payments as a function of income as follows:

Line	Column One Annual Adjusted Income (per MHFA 2(n)) not exceeding	Column Two Minimum Percentage of Borrowers' Adjusted Income required to be paid toward monthly Principal and Interest Payment	Column Three Initial Maximum HAF Monthly Assistance
1	8,000	15%	$75
2	8,500	15.5%	75
3	9,000	16%	75
4	9,500	16.5%	75
5	10,000	17%	75
6	10,500	17.5%	65
7	11,000	18%	55
8	11,500	18.5%	45
9	12,000	19%	35
10	12,500	19.5%	25
11	13,000	20%	15
12	16,000	N/A	0

This schedule was established on the basis of Agency experience that persons and families whose annual adjusted income fell between $10,000 and $13,000 were not being adequately served by existing Agency mortgage programs. Persons and families within these income ranges would, however, be capable of affording their own home if they were able to receive assistance in the early years of their purchase. Exhibit A shows 54,536 households in the State of Minnesota with annual earnings of between $10,000 and $13,999. Persons and families within this income range compose twenty-two percent of the total non-elderly households in the state, who are currently living in rental housing. The Agency's experience has shown that persons and families with adjusted income above $13,000 per year, given current economic conditions and interest rates, are able to take part in the normal mortgage programs of the Agency without HAF assistance. Thus, the Agency established a schedule of maximum initial monthly assistance payments so that the maximum payments would reach households with an annual adjusted income of $10,000 or less, and lesser assistance would go to persons or families with annual adjusted incomes between $10,000 and $13,000.

Exhibit B is a graph showing the maximum amount of monthly principal and interest payments which households of varying income may reasonably be expected to pay (lower figure in each square) and the amount of HAF monthly assistance required to make up the total principal and interest payment which would be due on varying mortgage amounts (upper figure in each square), assuming a 30-year mortgage term and a 7% interest rate. The chart demonstrates that for mortgages of between 33 and 35 thousand dollars, which under current economic conditions should be the maximum necessary for the purchase of a moderately priced home in Minnesota, the amount of HAF monthly assistance for each income level follows the schedule currently used by the Agency, with households of up to $10,000 in annual adjusted income requiring the maximum subsidy of $75 per month for a $33,000 mortgage and households earning $13,000 requiring only $15 in monthly assistance for a $35,000 mortgage.

During the life of the HAF program, however, changing economic conditions are likely to affect the cost of home ownership. As housing costs increase, the mortgage necessary to purchase a modest home will move closer to the upper end of the mortgage scale pictured on Exhibit B. If the mortgage amount were raised to $38,000, to reflect rising construction costs, the maximum HAF subsidy of $75 would be required to assist households of up to $11,500 in annual income; households of $13,000 per year would need a $35 initial subsidy, and households of more than $13,000 would also begin to require some HAF assistance in order to enter the housing market. To permit the Agency to meet such changing conditions, MHFA 133 establishes parameters within which the initial maximum monthly assistance may be varied.

In addition to increased housing costs, an increase in the interest rate that the Agency must charge on its limited-unit development mortgage loans will increase the monthly principal and interest payments under those mortgages.

Currently, Agency mortgages are available at 6-3/4 percent. While no immediate change in this percentage is foreseen, during the life of the HAF Program a change of as much as one point in this percentage is possible. The Agency obtains its funds by the sale of interest bearing bonds, and the interest rates which must

be offered in those bonds are determined by current market conditions, which change quickly and dramatically from time to time. Mortgage interest rates must, of course, cover bond interest costs.

Thus, if mortgage interest rates increase, the amount of monthly assistance should similarly increase. The Agency rule of thumb is that a household in the income range of $10,000 to $13,000 per year should not spend more than 20 percent of its income on mortgage and interest payments. An increase of one point in the interest rate for an average mortgage of $30,000 amortized over the standard 30-year life of the mortgage would cost the home owner an additional $20 per month or $240 per year, and would require an additional $1,200 worth of income ($240 x 5) for the same mortgage amount. For example, a household earning $11,000 at today's interest rate would need $55 per month in initial HAF monthly assistance. If the interest rate increased by one point, the same $55 would be necessary to a family earning $12,000. Taking into account, therefore, possible increases in mortgage interest rates and future changes in the cost of living and construction, the Agency estimates that it needs a flexibility of about $1,500 in income ranges to determine initial maximum monthly assistance if the HAF program is to meet the future needs of Minnesota households earning less than $16,000 per year. Thus, the proposed amendment to MHFA 133 spells out the Agency's power to establish the initial maximum monthly assistance within these specific income ranges as required by the criteria set forth in the rule.

As this modification to the proposed rule merely clarifies the schedule-making process already referred to in the prior edition of MHFA 133, without affecting the substantive rights of any recipient, and without fundamentally changing the rule as contained in the Notice of Hearing, the Agency has presented this amendment as an insubstantial amendment appropriate for presentation at the hearing.

Yours truly,

LEONARD, STREET AND DEINARD

By
M. Patricia Schaffer

MPS:jm

Enclosures

Exhibit A

1976 INCOME DISTRIBUTION

Renter Households - Non Elderly

Income	Households	Percent	Percent Cumulative
Less Than 2,000	13,265	5.4	-
2,000- 3,999	15,528	6.3	11.7
4,000- 5,999	22,271	9.0	20.7
6,000- 7,999	25,785	10.4	31.1
8,000- 9,999	29,739	12.0	43.1
10,000-11,999	28,033	11.3	54.4
12,000-13,999	26,503	10.7	65.1
14,000-15,999	18,132	7.3	72.4
16,000-19,999	29,620	12.0	84.4
20,000-23,999	19,231	7.8	92.2
24,000-27,999	8,526	3.4	95.6
28,000 or more	10,795	4.4	100.0
TOTAL	247,428		

Increase factor = 1.46

Median income = $10,999-$11,999

1976 INCOME DISTRIBUTION

All Households

Income	Households	Percent	Percent Cumulative
Less Than 2,000	84,620	7.4	-
2,000- 3,999	90,524	7.9	15.3
4,000- 5,999	88,966	7.7	23.0
6,000- 7,999	89,954	7.8	30.8
8,000- 9,999	92,632	8.0	38.8
10,000-11,999	96,009	8.3	47.1
12,000-13,999	99,035	8.6	55.7
14,000-15,999	83,038	7.2	62.9
16,000-19,999	154,122	13.4	76.3
20,000-23,999	109,066	9.5	85.8
24,000-27,999	61,724	5.4	91.2
28,000 or more	101,304	8.8	100.0
TOTAL	1,150,994		

Income factor = 1.46 times 1969 incomes.

Median income = $12,000-$13,999

Exhibit B

HAF MONTHLY ASSISTANCE SCHEDULE

Mortgage Amount 000's

Adjusted Income	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
8,000	65 101.33	70 102.98	75 104.64	75 111.29	75 117.94	75 124.60	75 131.25	75 137.90	75 144.55	75 151.21	75 157.86	75 164.51	75 171.17	75 177.82	75 184.47	75 191.13
8,500	55 111.33	60 112.98	65 114.64	75 111.29	75 117.94	75 124.60	75 131.25	75 137.90	75 144.55	75 151.21	75 157.86	75 164.51	75 171.17	75 177.82	75 184.47	75 191.13
9,000	45 121.33	50 122.98	55 124.64	65 121.29	70 122.94	75 124.60	75 131.25	75 137.90	75 144.55	75 151.21	75 157.86	75 164.51	75 171.17	75 177.82	75 184.47	75 191.13
9,500	35 131.33	40 132.98	45 134.64	55 131.29	60 132.94	65 134.60	75 131.25	75 137.90	75 144.55	75 151.21	75 157.86	75 164.51	75 171.17	75 177.82	75 184.47	75 191.13
10,000	20 146.33	30 142.98	35 144.64	40 146.29	50 142.94	55 144.60	60 146.25	70 142.90	75 144.55	75 151.21	75 157.86	75 164.51	75 171.17	75 177.82	75 184.47	75 191.13
10,500		20 152.98	25 154.64	30 156.29	35 157.94	45 154.60	50 156.25	55 157.90	65 154.35	75 151.21	75 157.86	75 164.51	75 171.17	75 177.82	75 184.47	75 191.13
11,000				20 166.29	15 177.94	20 179.60	40 166.25	45 167.90	50 169.55	60 166.21	65 167.86	70 169.51	75 171.17	75 177.82	75 184.47	75 191.13
11,500						20 179.60	25 181.25	35 177.90	40 179.55	45 181.21	55 177.86	60 179.51	65 181.17	75 177.82	75 184.47	75 191.13
12,000							15 191.25	20 192.90	20 199.55	35 191.21	40 192.86	45 194.51	55 191.17	60 192.82	65 204.47	75 191.13
12,500									15 204.55	20 206.21	25 207.86	35 204.51	40 206.17	45 207.82	55 204.47	60 206.13
13,000											15 217.86	20 219.51	25 221.17	35 217.82	40 219.47	45 221.13

Thirty year mortgage term, 7% interest rate, Upper Figure-HAF Monthly Subsidy, Lower Figure-Borrowers' Minimum Payment toward principal and interest.