

**4900.3634 OWNER-OCCUPIED HOUSING.**

Subpart 1. **Generally.** To determine whether to award challenge program funds for owner-occupied housing in the form of an interim loan or a deferred loan, the agency shall consider the type of activity for which the applicant seeks funding and the needs described in the application. The agency shall provide funding to a successful applicant in the form of a loan unless the applicant provides documentation satisfying the conditions in subpart 3.

Subp. 2. **Loans for owner-occupied housing.** Challenge program funds provided in the form of a loan may be interim loans or deferred loans.

A. The agency may provide challenge program funds in the form of an interim loan to acquire, rehabilitate, demolish, or construct owner-occupied housing. Interim loans bear interest at a rate of two percent unless the interest rate would adversely affect the affordability of the housing for the eligible homebuyers that the applicant is proposing to serve, in which case the interim loan is interest free.

The term of an interim loan is 20 months; however, the agency may adjust the loan term based on requirements and conditions of other funding sources related to the loan term or economic analysis by agency staff of the financial feasibility of the owner-occupied housing. The determination of financial feasibility shall be based on whether all sources of funding are available and sufficient to cover the total development costs of the housing. Principal and interest, if any, is due and payable at the end of the 20-month term. Interim loans shall not be transferred to eligible homebuyers.

B. The agency may also provide challenge program funds in the form of an interest-free deferred loan for purposes of interim or permanent financing. A deferred loan is used to help bridge funding gaps not covered by a first mortgage or other sources of funding for owner-occupied housing. A deferred loan must be repaid:

(1) when the owner-occupied housing constructed, acquired, or improved with the proceeds of the deferred loan is sold, transferred, or otherwise conveyed by the eligible homebuyer;

(2) when the eligible homebuyer ceases to use owner-occupied housing constructed, acquired, or improved with the proceeds of the deferred loan as owner-occupied housing; or

(3) on the date that is 30 years from the date of the loan closing;

whichever occurs first.

Subp. 3. **Grants.** Challenge program funds may be provided in the form of a grant if the funds will be used to finance:

A. the gap that exists between the sale price of the owner-occupied housing and the construction costs of the housing; or

B. other eligible activities for which the agency could not recoup loans without increasing housing costs beyond that which the eligible homebuyer could afford. In deciding to award grant funds, the agency shall also consider administrative ease and whether the award would expand and preserve affordable housing opportunities for a longer period of time.

**Subp. 4. Loan repayment.**

A. A successful applicant shall repay to the agency all challenge program funds awarded to it in the form of a loan if the successful applicant ceases to use the funds as stated in its application to the agency and in the manner provided in any agreement between the successful applicant and the agency governing the use of the challenge program funds.

B. The successful applicant may retain the proceeds of the challenge program loan and revolve the funds under either of the following two conditions:

(1) Condition one:

(a) the successful applicant uses the challenge program funds for the same purpose for which the agency originally awarded the funds within two years of the original award; and

(b) the location of the owner-occupied housing to be acquired, rehabilitated, or constructed with the funds is identified in the application.

The successful applicant's authority to revolve the funds beyond the initial two years may be renewed upon application to and approval by the agency.

(2) Condition two:

(a) the successful applicant uses the challenge program funds to finance the difference between the cost of the owner-occupied housing and the amount that the eligible homebuyers targeted by the successful applicant can afford for housing, based on industry standards and practices; and

(b) the successful applicant uses the challenge program funds for the same purpose for which the agency originally awarded the funds within two years of repayment of the funds to the successful applicant.

**Statutory Authority:** *MS s 462A.06*

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