

**MINNEAPOLIS SMALL AND MEDIUM MULTIFAMILY
ACQUISITION LOAN PROGRAM GUIDELINES**
(SMMF Pilot)

I. PURPOSE OF PROGRAM

The SMMF Pilot loan program is designed to be a pilot partnership between the Land Bank Twin Cities (“Land Bank”), Twin Cities LISC (“LISC”) and the City of Minneapolis. The goal of the pilot program is to get community control over small-to-medium multifamily (SMMF) buildings defined as 2-49 units in Class B and C buildings that are currently without government subsidy.

The partners will identify SMMF rental properties at risk of market conversion and evaluate the property based on location, condition, adjacent acquisition opportunities, current affordability and gentrification risk. The partners will prioritize acquisitions based on the criteria described in Section IV below.

The investment strategy will take a balanced portfolio approach, based on property cash flow, capital needs, income potential, and likely disposition. The portfolio may include a range of stronger operating properties with lower capital needs and weaker operating properties with higher capital needs. This mitigates risk and allows for cross-collateralization, temporary relocation, and a nuanced disposition strategy that does not rely solely on public subsidy to recapitalize and sustain each property.

II. PARTICIPATION AND FINANCING

The City’s zero interest participation loans will provide up to one-third of each LISC SMMF loan made to the Land Bank to acquire a SMMF Property in Minneapolis. The City share will be up to a maximum of \$19,000 per unit. LISC will execute a Lender Agreement with the City of Minneapolis to carry out its participation in accordance with these guidelines.

Administration of the Pilot Program will be shared by the City of Minneapolis, Department of Community Planning and Economic Development, the Land Bank and LISC.

III. LOAN TERMS AND CONDITIONS

A. Maximum Loan

The City will participate in a loan up to a maximum of \$19,000 per unit. LISC may increase its portion over the City’s maximum amount.

B. Interest Rates

The City’s portion will be completely deferred and have a fixed rate of 0% over the entire term of the loan.

LISC is allowed to charge current interest rates, fixed or variable over the term of the loan.

C. Term

The term of the City loan shall be up to 10 years and will be matched by the term of LISC's loan. The City's Finance Officer may authorize extensions of the Loan.

D. Collateral Required

City Staff will evaluate and approve individual loan requests in accordance with these approved program guidelines.

LISC and the City together shall determine the type and amount of collateral the Land Bank will provide, which shall, in most cases be a senior lien on the property being acquired.

LISC shall file any liens required on collateral and a Declaration of Program Covenants in favor of the City that runs concurrent with the City loan or 15 years, whichever is less.

Other than the Declaration of Program Covenants, the City of Minneapolis is not named on the loan papers. All loan documents other than the Declaration of Program Covenants are to be in the name of LISC.

E. Loan Disbursements

Payments to the Land Bank shall be made by LISC. The timing and number of loan disbursements will be determined by LISC.

IV. ELIGIBILITY CRITERIA

A. Site Eligibility/Selection:

- (i) 2-49 unit occupied residential buildings in the City of Minneapolis, with a priority for 10-20 unit buildings.
- (ii) Buildings will have existing rents at or near the following: 75% of the units with rents affordable to households with incomes at or below 80% of the area median income (AMI), including 20% of such units affordable to households at or below 60% AMI, as evidenced by the current rent roll.
- (iii) Buildings with purchase prices that are reasonable in comparison with other neighborhood properties as supported by an appraisal.
- (iv) Buildings that can demonstrate positive cash flow under current rents for a minimum three-year period.
- (v) Additional priority will be given to buildings with rents affordable to households earning at or below 50% AMI.
- (vi) Additional priority will be given to buildings located in neighborhoods that have experienced higher levels of tenant evictions.

- (vii) Additional priority will be given to buildings with existing tenants that include vulnerable populations, including families with minor children, elderly, and disabled tenants.
- (viii) Additional priority will be given to buildings that require the lowest amount of subsidy.
- (ix) Additional priority will be given to buildings where a qualified end-buyer has been identified (see “disposition” section below).
- (x) Additional priority will be given to buildings that have units with multiple bedrooms.

B. Eligible Expenses

City Loan funds may only be used for land and building acquisition costs including an administrative fee for the Land Bank in an amount not to exceed 10% of acquisition costs.

C. Ineligible Costs

The following costs are ineligible for payment from City portion of the Loan funds.

- (i) Refinancing of existing debts.
- (ii) Rehabilitation and construction.
- (iii) Non-fixed improvements.

The LISC portion of the Loan Funds can be used for Ineligible Costs, including additional administrative fees.

D. Acquisition Completed Prior to Loan Closing.

Acquisitions that pre-date the Loan Closing are eligible if the following steps have been taken:

- (i) The Land Bank must have notified the City prior to the acquisition.
- (ii) The Land Bank must have a commitment letter from LISC and the City's Director of Housing Development and Policy confirming their conditional financing and approval of the project prior to the acquisition.

If the above conditions have been met, the applicant may proceed using his/her own funds or interim financing and the City will allow its funds to take out such interim financing.

E. Interim Construction/Rehab Costs

The Land Bank will contract with a third-party contractor to estimate immediate capital repairs that present a threat to the health, safety, and quality of life of the residents. LISC will finance and the Land Bank will oversee the construction/rehab of each building.

- F. The Land Bank will, within 6 months of purchase, sign each eligible property up for and complete the Multifamily Building Energy Efficiency Program free energy assessment.

V. AFFORDABILITY AND TENANT PROTECTION REQUIREMENTS FOR TERM OF DECLARATION

- A. 75% or more units must serve households at 80% AMI or less and 20% or more of those units must serve households at 60% AMI or less during the term of the loan. The Land Bank may, but is not required to exempt units occupied by tenants living in the Property as of the date of acquisition when making the foregoing calculation.
- B. The Land Bank will accept Section 8 Housing Choice Vouchers.
- C. The Land Bank will follow responsible maintenance and tenant selection practices and affirmatively market all vacancies to promote fair housing opportunities.
- D. Limits on Rent Increases:
 - (i) Lease-compliant residents will not be involuntarily displaced (no lease terminations without cause).
 - (ii) Rent increases for existing tenants will be limited based on a goal of non-displacement of low-income households to a maximum of 5% per year for two years after acquisition.
 - (iii) Rents may be increased and adjusted upwards as necessary as units turn over from initial households, while still within applicable rent affordability guidelines as described in Section IV(A).
 - (iv) Acquisitions will be exempt from Minneapolis Relocation Policy, subject to the Land Bank providing notice to all existing tenants of the foregoing Affordability and Tenant Protection Requirements.

VI LAND BANK PROPERTY MANAGEMENT DURING INTERIM HOLD

- A. The Land Bank will contract with a third-party property management company for a minimum of three months during transition and stabilization of the property.
- B. 25% of the annual surplus cashflow will be deposited into an interest-bearing account to cover operating shortfalls or unforeseen repairs. Any used funds will stay with the property as a sinking fund to hedge against refinance risk at the end of the interim acquisition period.

VII REPORTING

The Land Bank will submit an annual report to the City certifying compliance with the program's property management covenants, detailing whether any rehabilitation work or energy assessments have occurred in the last year, the latest rent roll, the current vacancy rate, whether any tenants are using Section 8 vouchers and whether there are any anticipated dispositions of the property in the coming year.

The City will have the right, during normal business hours and as often as it reasonably deems necessary, shall have access to and the right to examine audit, excerpt and transcribe any books, documents, papers, records, etc, which are pertinent to LISC's and the Land Bank's activities pursuant to the SMMF Pilot Program. The Land Bank agrees to retain all such records for a period of six years from the date all City loans are repaid, assigned or forgiven.

VIII DISPOSITION

The City portion of the Loan can only be assigned to a new owner if (1) such owner is a non-profit organization with a mission of providing long-term affordable or mixed-income housing and demonstrated experience and capacity in owning and operating SMMF housing or (2) the City Council authorizes such an assignment.

The Land Bank will work with the City and responsible investors and developers to develop a disposition strategy for property acquired through the SMMF Pilot Program. A variety of disposition financing strategies will be explored.