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# Minnesota Housing Mortgage Loans Step Up Program

Procedural Manual

July 1, 2026

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# Chapter 1 – Introduction

## 1.01 Minnesota Housing Mission Statement

Housing is foundational to a full life and a thriving state, so we equitably collaborate with individuals, communities and partners to create, preserve and finance housing that is affordable.

## 1.02 Values Statement

Our vision is that all Minnesotans live and thrive in a stable, safe and accessible home they can afford in a community of their choice.

To achieve this vision, we will reorient how we work and expand who has a voice at the table and who participates in and benefits from our programs and the housing economy. We acknowledge and understand the intentional harms of the past, how they came to be and persist today, and our responsibility to correct them and remove barriers.

We will:

- Center the people and places most impacted by housing instability at the heart of our decision-making,
- Listen and share the power we have,
- Honor, respect and strengthen communities, and
- Be inclusive, equitable, just and antiracist in our actions.

## 1.03 Background

The Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers two mortgage loan programs to serve low- and moderate-income homebuyers (defined in state law as “persons and families of low and moderate income”):

- The Step Up Program for home purchase or refinance, with access to a downpayment and closing cost loan.
- The Start Up Program for First-Time Homebuyers, a first mortgage loan program with access to downpayment and closing cost loans. Refer to the Start Up Program Procedural Manual for Start Up Program requirements.

Lenders originate and close loans under their individual underwriting and closing procedures. A Master Servicer purchases and securitizes closed loans originated by a Lender under prescribed program requirements. Lenders are advised that underlying eligible product guidelines and Master Servicer requirements apply, which may be more restrictive than the Minnesota Housing guidelines. Minnesota

Housing’s current Master Servicer is U.S. Bank Home Mortgage—Housing Finance Agency Division (U.S. Bank – HFA Division).

Minnesota Housing offers the Monthly Payment Loan for Step Up Program Borrowers who need funds for downpayment and closing costs.

#### **1.04 Step Up Program**

Step Up Program offers home mortgages and refinance loans throughout Minnesota to low- and moderate-income Borrowers through local participating Lenders.

#### **1.05 Monthly Payment Loan Program**

The Monthly Payment Loan provides an amortizing loan with an interest rate equal to the first mortgage to assist Borrowers with downpayment and closing costs. See [Chapter 7](#) for Monthly Payment Loan guidelines. The Monthly Payment Loan is the only Minnesota Housing downpayment and closing cost loan option available with Step Up Program.

## Chapter 2 – Responsible Lending

### 2.01 Procedural Manual

Participating Lenders must execute a Participation Agreement with Minnesota Housing to participate in Minnesota Housing’s Single Family Mortgage Programs. This Procedural Manual, which may be updated or amended, is incorporated into the Participation Agreement by reference and Participating Lenders are obligated to adhere to both the Participation Agreement and the Procedural Manual.

Minnesota Housing reserves the right to:

- Change the program interest rate(s) at any time and at its sole discretion
- Change the commitment policy at any time
- Alter or waive any of the requirements
- Impose other or additional requirements
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated
- Grant waivers, alterations, or make revisions at its sole discretion

### 2.02 Single Family Responsible Lending Policy

Minnesota Housing uses prudent, sound and responsible business practices in marketing and product design related to its Single Family loan programs. Minnesota Housing designs programs with a focus and goal of successful homeownership, which means Borrowers, must have the knowledge, ability, willingness, and capacity to repay their housing debt. Minnesota Housing does not offer [subprime](#) or high-cost mortgage lending programs. Minnesota Housing reviews portfolio and market conditions regularly to ensure that business practices are updated as needed to meet its responsible lending goals.

In delivering Single Family loan programs, Minnesota Housing policies address:

- Lender relationships and a Lender’s role and responsibility in originating and delivering quality, compliant loans under the Minnesota Housing program. These responsibilities include:
  - Lenders must evaluate a Borrower’s repayment capacity, including evaluating risk layering and documenting sources of Borrower income(s), Borrower assets and Borrower liabilities
  - Lenders are prohibited from steering
  - Lenders must comply with all rules and regulations for higher priced mortgage loans. Higher priced mortgage loans are defined in [12 CFR 1026.35 \(Regulation Z\)](#)
  - Lenders are prohibited from delivering high-cost mortgage loans as defined in [12 CFR 1026.32 \(Regulation Z\)](#)
  - Loans containing prepayment penalties or mandatory arbitration clauses are not permitted

- Single Premium Credit Life Insurance may not be required, nor can any funds provided by Minnesota Housing be used toward the purchase of any credit insurance products or premiums
- Compliance with the Interagency Guidelines on Nontraditional Mortgage Product Risks
- Compliance with all local, state and federal regulations as well as Minnesota Housing program guidelines as applicable to each individual loan transaction

### **2.03 Evidence of Misconduct**

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, a Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower(s) or others, the Lender will promptly report the discovery to Minnesota Housing and U.S. Bank – HFA Division.
- Minnesota Housing, or U.S. Bank – HFA Division, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender or the Borrower(s). This includes possible repayment of loan funds, repayment of administrative costs, repayment of fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs, or any other expenses incurred in connection with the loan or its recovery.

### **2.04 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number**

The Minnesota Revenue Recapture Act (Minnesota Statutes, Sections 270A.01 to 270A.12, as amended) allows the disclosure of the Borrower(s) Social Security Number to the Minnesota Department of Revenue.

This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower(s) to Minnesota Housing.

This collection remedy is in addition to and not in substitution for any other remedy available by law ([Minn. Stat. 270A.04, subd. 1](#))

## **2.05 Unauthorized Compensation**

The Lender may receive fees as approved in this Procedural Manual. However, the Lender may not receive or demand from the realtor, builder, general contractor, subcontractor, Property Seller, or Borrower(s):

- Kickbacks
- Commissions
- Other compensation in violation of state or federal law including but not limited to the Real Estate Settlement Procedures Act (RESPA)

## **2.06 Minnesota Housing Due Diligence Audit Guidelines and Requirements**

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by U.S. Bank – HFA Division. Minnesota Housing reserves the right to conduct quality control, audit, and monitoring activities at its sole discretion upon written notice to Lender.

Audited loans are reviewed for:

- Adherence to state and federal laws regulating mortgage lending
- Minnesota Housing program and policy compliance
- Fraud or misrepresentation on the part of any party involved in the transaction
- Trends or other indicators that may have an impact on the success of the Borrower(s) and programs

Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by U.S. Bank – HFA Division.

## **2.07 Termination of Lender Participation**

Minnesota Housing may terminate the participation of any Lender under the programs at any time and may preclude the Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual
- The Participation Agreement
- The U.S. Bank – HFA Division's Lender Guide
- Applicable state and federal laws, rules, and regulations

Upon termination of a Lender's Participation Agreement:

- U.S. Bank – HFA Division may continue to purchase eligible loans delivered to U.S. Bank – HFA Division for loans originated prior to termination.
- Minnesota Housing will not refund participation fees to the Lender.

Remedies and Reinstatement

- Minnesota Housing may, at its option, impose remedies other than termination of the Participation Agreement for the Lender's nonperformance.
- The Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender is at Minnesota Housing's and U.S. Bank – HFA Division's sole discretion.

## 2.08 Representations and Warrants

The Lender must comply with all applicable federal, state, and local laws, ordinances, regulations, and orders, including, but not limited to, any rules that the Lender may be subject to, related to mortgage lending or based on their legal organizational structure.

In addition, the Lender must comply with the documents listed below and will ensure that the person who confirms the loan on Minnesota Housing's loan commitment system and who verifies the Lender's Representations and Warranties on behalf of the Lender, has both the authority to legally bind the Lender and is fully conversant with:

- U.S. Bank – HFA Division requirements as published in AllRegs
  - The U.S. Bank – HFA Division Lender Guide unless those terms, conditions, and requirements are specifically waived by Minnesota Housing or U.S. Bank – HFA Division, as applicable, in writing.
  - [US Bank AllRegs](#) section 500 for Minnesota Housing and Section 1400 credit overlays
- Minnesota Housing program requirements
  - The Participation Agreement
  - This Procedural Manual
- Underlying loan product and insurer/guarantor requirements

## 2.09 Lender Compensation

The Lender is compensated for each loan purchased by U.S. Bank – HFA Division as follows:

- 2.50% is the maximum compensation a Lender may retain on any Minnesota Housing loan file between origination/discount fees and Service Release Premium – see the [Lock, Fee, and SRP Guide](#).
- The Lender receives a service release premium (SRP) paid by U.S. Bank – HFA Division in an amount established by Minnesota Housing and posted on the [Minnesota Housing website](#)
- The Lender may collect an origination fee or discount points from the Borrower(s) in accordance with industry-standard regulations and limited as follows:
  - Origination fee and Discount points cannot exceed 1% when using either the 1.5% SRP option or the 3.5% SRP option (the 3.5% SRP option helps to cover Upfront Paid Mortgage Insurance costs).
  - Lender cannot charge any origination fee or discount points with the 2.5% SRP options.

## 2.10 Annual Renewal Requirements

- All Lenders must confirm willingness to participate in the Minnesota Housing Loan programs on an annual basis. This is done by completing the Annual Renewal Forms.

## 2.11 Marketing Materials Terms of Use

Lenders must follow Minnesota Housing's [Terms of Use](#) for marketing materials and the Participation Agreement requirements for marketing and use of Minnesota Housing's name or logo.

## Chapter 3 – Master Servicer

Minnesota Housing's Master Servicer, U.S. Bank – HFA Division, has requirements in addition to Minnesota Housing's program requirements and underlying product guidelines. U.S. Bank – HFA Division's requirements may be more restrictive and may vary by different state Housing Finance Agencies.

Lenders must review and comply with all applicable U.S. Bank – HFA Division requirements, including Minnesota Housing specific requirements, located in [AllRegs](#). U.S. Bank – HFA Division has an Overlay Matrix resource in AllRegs highlighting common overlays (not comprehensive). In addition to U.S. Bank – HFA Division's overlays, Lenders must follow U.S. Bank – HFA Division's loan delivery, documentation, servicing, fees policies and all other due diligence.

## **Chapter 4 – Borrower Eligibility**

### **4.01 Borrower**

One individual or multiple individuals are eligible to be a Borrower only if the individual(s) meet the requirements set forth in this Procedural Manual.

### **4.02 Borrower Age**

The Borrower(s) must be eighteen years of age or older or legally emancipated.

### **4.03 Co-Signers**

Co-Signers are permitted on Step Up Program loans. Co-Signers must sign the Step Up Program loan note and the Monthly Payment loan note, if applicable. Co-Signers are not vested in title to the property and are not required to reside in the subject property.

### **4.04 Principal Residence/Occupancy Requirement**

One Borrower must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan.

### **4.05 Current Minnesota Housing Borrower Requirements**

Borrowers may not have more than one MN Housing First Mortgage, one HAF/DPL/DPL+/MPL, and one First-Generation Homebuyer loan open at a time.

### **4.06 Qualified Homebuyer Education**

If all Borrowers are First-Time Homebuyers, at least one Borrower must complete an approved homebuyer education course prior to closing. A copy of the certificate of completion must be in the loan file. Minnesota Housing does not have a Homebuyer Education certificate expiration date policy. [Approved Homebuyer Education](#) courses are listed on the Minnesota Housing website.

### **4.07 Credit Score and Debt-to-Income (DTI) Ratios**

The Step Up Program credit score and debt-to-income (DTI) requirements vary based on underlying loan products. Refer to Minnesota Housing's [Credit and DTI Matrix](#) for credit score and DTI requirements by product types.

Refer to the following product descriptions on Minnesota Housing's website for additional conventional product requirements:

- [Fannie Mae HFA Preferred™ Product Description](#)
- [Freddie Mac HFA Advantage® Product Description](#)

Minnesota Housing offers these product descriptions and the following chart as resources for Lenders. Lenders must conduct their own due diligence in adhering to all underlying product and U.S. Bank–HFA Division requirements and not rely solely on the tools and/or information provided by Minnesota Housing, including the tools and/or information in this Procedural Manual.

See [AllRegs](#) for additional, specific U.S. Bank– HFA Division requirements.

*Table 1/Credit Score Guides*

<b>Credit Scores</b>	<b>Guidance</b>
3 scores	Use the middle of the scores
2 scores	Use the lower of the two scores
1 score	Use the available score
Multiple Borrowers: all with credit scores	Use the lowest middle score available
Multiple Borrowers: at least one Borrower has a credit score, and the other Borrower(s) does not have a credit score	Defer to the underlying product guidelines
Sole Borrower or Multiple Borrowers: No score	Defer to the underlying product guidelines
Insufficient credit to support an AUS Approval or has erroneous, inaccurate, or disputed credit	Defer to the underlying product guidelines

#### **4.08 Program Income Limits**

The income used to qualify the Borrower must not exceed the Step Up Program [income limits](#) posted on Minnesota Housing’s website. Income is defined by and calculated according to credit underwriting guidelines (i.e. qualifying income) for the underlying loan product (FHA, RD, VA, Fannie Mae, or Freddie Mac).

## Chapter 5 – Property Eligibility

### 5.01 Eligible Properties

Properties eligible for a loan under Step Up Program must be located in the State of Minnesota and may include any of the following housing types.

- A single-family detached residence
- A unit within an eligible Planned Unit Development (“PUD”)
- A condominium unit
- A duplex that meets the following requirements:
  - The Borrower(s) must occupy one unit of a duplex property
  - Duplex must have been a residential property for at least five years before the date of the new mortgage, i.e. cannot be new construction or recently converted from non-residential use
- A modular home
- A manufactured home that meets the following requirements:
  - A double wide or larger manufactured home permanently affixed to a foundation and taxed as real property; and
  - Built to Federal Manufactured Home Construction Safety Standards, administered by U.S. Housing and Urban Development (HUD)

Additionally, eligible properties must meet the following, as applicable:

- Underlying eligible conventional loan product guidelines:
  - [Fannie Mae HFA Preferred™ Product Description](#) and [Freddie Mac HFA Advantage® Product Descriptions](#) on [Minnesota Housing’s website](#)
  - If the underlying conventional product guidelines (Fannie Mae HomeReady™ and Freddie Mac HomePossible®) conflict with the Minnesota Housing conventional product descriptions above, defer to the Minnesota Housing conventional product descriptions.
- Underlying FHA, VA and USDA loan product guidelines
- U.S. Bank – HFA Division requirements located within [AllRegs](#)

## 5.02 Ineligible Properties

Properties not eligible for financing are as follows:

- A unit in a cooperative corporation or a limited equity cooperative corporation
- A recreational or seasonal home
- A single-wide manufactured home, even if permanently affixed to a foundation and taxed as real property
- A property intended to be used as an investment property (except the rental of a second unit in a duplex)

## 5.03 Ownership Interest

Eligible forms of ownership interest include the following:

- Fee simple interest
- Joint tenancy
- Community Land Trust (CLT)
- Tenancy in common
- Tenants by the entirety
- Sole Ownership

## 5.04 Loan and Purchase Price Limits

The maximum purchase price for purchase transactions and the maximum loan amount for refinance transactions may not exceed the purchase price/loan amount limits posted on [Minnesota Housing's website](#).

## 5.05 New Construction Property Requirements

In addition to the property eligibility requirements stated in [Section 5.01](#) of this Procedural Manual, a New Construction property must meet the following requirements:

- The land must be zoned for residential housing
  - The land must not have been annexed within the previous calendar year
  - A certificate of occupancy or legal document that confirms a house is safe to inhabit must be issued for the property before loan closing
- The Borrower(s) may not act as the general contractor

## Chapter 6 – Loan Eligibility

### 6.01 Eligible Loans

U.S. Bank – HFA Division purchases closed loans from the Lender under a Participation Agreement in Minnesota Housing mortgage loan programs. The Lender must warrant that the following criteria are met for each loan submitted for purchase.

Eligible loan types:

- Purchase transactions
- Refinance transactions:
  - No cash out
  - Limited cash out

Eligible Government loan products:

- Federal Housing Administration (FHA), including:
  - FHA 203(k) Limited
  - FHA Streamline Refinance
- Veterans Administration (VA), including:
  - VA Streamline Refinance (IRRRL – Interest Rate Reduction Refinance Loan)
  - VA – Type I cash-out Refinance
- USDA Rural Development (RD), including:
  - RD Streamline Refinance
  - RD Streamline Assist Refinance

Eligible Conventional loan products:

- [Fannie Mae HFA Preferred™](#)
- [Freddie Mac HFA Advantage®](#)

Lenders are advised to refer to the conventional product descriptions on the Minnesota Housing website and [AllRegs](#) for product requirements.

Program loans must satisfy the following criteria:

- All local, state and federal laws, and regulations including those relating to the Fair Housing Act, the Truth in Lending Act (TILA) and Minnesota’s Human Rights Act are met.
- Both the first mortgage loan and if applicable, the second mortgage loan must be originated, closed or assigned under the name of the lender that is a party to the Minnesota Housing Participation Agreement and who locked the loan(s) in the Minnesota Housing loan commitment system.

## 6.02 Interest Rate/Amortization Requirements

Minnesota Housing requires that all loans:

- Must have a fixed interest rate
- Must be fully amortizing over the term of the loan
- Must be payable on the first of each month in level monthly installments that include at least principal and interest

The interest rates for Minnesota Housing loan programs are listed in the Lender Portal on the [Homeownership Interest Rates](#) page.

## 6.03 Mortgage Term

Minnesota Housing mortgage terms and SRP options can be found in the Lender Portal [on the Homeownership Interest Rates](#) page.

- Step Up Program loans can have a 15, 20, 25 or 30 year term

## 6.04 Private Mortgage Insurance Coverage Requirements

All loans requiring private mortgage insurance must have coverage at the levels prescribed by the underlying mortgage product guidelines.

All private mortgage insurance companies must:

- Be licensed to do business in the State of Minnesota
- Maintain a rating of A2 from Moody's Investor Services and AA from Standard and Poor's Corporation, or better, at the time the mortgage loan is purchased by U.S. Bank – HFA Division, or have Fannie Mae and Freddie Mac approval
- Meet the minimum requirements for private mortgage insurance companies identified in the underlying loan product guidelines.

## 6.05 Settlement/Closing Costs

The settlement and closing costs, fees, or charges the Lender collects from any party in connection with any loan must:

- Comply with all local, state and federal regulations as well as Minnesota Housing program guidelines as applicable to each individual loan transaction
- Meet all requirements of the insurer/guarantor
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal)
- Ensure the Borrower does not pay more than a pro-rata share of property taxes

Additional limits:

- The total points and fees on the first mortgage cannot exceed 5% of the loan amount. See point and fees definition in [12 CFR 1026.32\(b\)\(1\) \(Regulation Z\)](#)
- Lender may not charge lender fees on any Minnesota Housing downpayment and closing cost loans (e.g. processing fee, underwriting fee, origination fee, etc.).
- Some third-party fees are allowed. See list of allowable third-party fees in the [Lock, Fee, and SRP Guide](#).
- See [Lock, Fee, and SRP Guide](#) for information on servicer fees that may be charged at loan closing.
- Lender may not charge a “Minnesota Housing fee” (or similar) for processing/originating a Minnesota Housing first or subordinate loan.

## 6.06 Gifts

All gifts received by the Borrower(s) for a Minnesota Housing loan must satisfy the requirements of the applicable underlying first mortgage loan product and the insurer/guarantor.

## 6.07 Non-Complying Loans

Minnesota Housing or U.S. Bank – HFA Division has the right to take one or more of the following actions in the event a Lender submits a mortgage loan that does not, as determined by Minnesota Housing or U.S. Bank – HFA Division, comply with the requirements of this Procedural Manual:

- Adjust the price at which Minnesota Housing or U.S. Bank-HFA Division is willing to acquire the loan for
- If not already purchased, refuse to purchase the loan
- If already purchased, require the Lender to repurchase the loan for the purchase price
- Terminate, suspend, or otherwise limit the Lender’s Participation Agreement with Minnesota Housing or U.S. Bank – HFA Division
- Preclude the Lender from future participation in Minnesota Housing programs

## Chapter 7 – Downpayment and Closing Cost Loans

The only Minnesota Housing downpayment and closing cost loan option available with the Step Up Program is the Monthly Payment Loan.

### 7.01 Monthly Payment Loan Requirements

The Monthly Payment Loan provides funds for downpayment and eligible expenses including customary buyer closing costs, prepaid expenses for taxes and insurance (homeowners, flood and mortgage insurance) and association fees as applicable. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan.
- Are available in whole dollar amounts up to \$14,000
- Must occupy a second mortgage lien position when combined with a non-Minnesota Housing Community Subordinate Financing
- Must have an interest rate equal to that of the first mortgage
- Must be fully amortizing and are payable in level monthly payments over a 15-year loan term
- Must have a monthly payment due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must not include any type of prepayment penalty
- May be used to combine the balance of an existing Monthly Payment Loan into a new Monthly Payment Loan when:
  - The Borrower is refinancing their first mortgage into a Step Up Program loan, and
  - The new Monthly Payment Loan (the combined total of the payoff of the existing Monthly Payment Loan and new funds) does not exceed the Monthly Payment Loan maximum loan amount
- May be used by Borrowers refinancing:
  - A Start Up Program loan into a Step Up Program loan
  - A Step Up Program loan into a new Step Up Program loan
- A first mortgage loan from another institution into a Step Up Program loan
- Must be paid in full when, among other requirements referenced in the loan note, the following occur:
  - The property ceases to be Owner-Occupied;
  - The property is sold or transferred;
  - The first mortgage loan is paid in full, including upon a refinance (see section 7.05 Subordination for subordination information); or the first mortgage loan is in default; or is declared to be due and payable in full.
- May not be assumed

## 7.02 Non-Minnesota Housing Subordinate Financing

Subordinate financing offered by a city or county government, a non-profit, or a for-profit, including downpayment and closing cost assistance, community seconds (including resale restrictions), or other forms of secondary financing used in conjunction with a Minnesota Housing loan, must comply with the following:

- Meet all requirements of the applicable first mortgage loan product and insurer/guarantor (i.e., FHA Secondary Financing, Fannie Mae Subordinate Financing, Freddie Mac Affordable Seconds)
- The Borrower may receive cash back at closing from subordinate financing proceeds only when the cash back is a refund of the Borrower's own investment, as allowed by the first mortgage product.
- Minnesota Housing requires initial and final disclosure of any and all subordinate financing.

## 7.03 Ineligible Use of Monthly Payment Loan

Minnesota Housing downpayment and closing cost loans cannot be used for any costs not covered in the Eligible Use of Funds section 7.01 above, including the value gap between the purchase price and the appraised value, to pay for the seller's closing costs, or to pay off debts or buyer's real estate agent commissions.

## 7.04 Monthly Payment Loan Borrower Eligibility

The Borrower(s) must satisfy all Step Up Program eligibility requirements. The following requirements for the Monthly Payment Loan must be met:

**Income Limits.** Refer to the Monthly Payment Loan Program [income limits](#) for Step Up Program which are posted on Minnesota Housing's website.

**Homebuyer Education.** Qualified Homebuyer Education is required of at least one Borrower in a First-Time Homebuyer household. (See [section 4.06](#) for more details.)

**Cash Investment.** A minimum cash investment of the lesser of 1% of the purchase price or \$1,000, including prepaids, is required only for purchase loans. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan, or sweat equity contribution.

**Asset Limit.** The Monthly Payment Loan has no asset limit.

## 7.05 Cash to the Borrower at Closing of Downpayment and Closing Cost Loans

The Borrower(s) may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower at closing is a refund of dollars Paid Outside of Closing (POC) by the Borrower and is reflected on the Closing Disclosure
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement
- The underlying first mortgage product and the insurer/guarantor allow the refund

## 7.06 Monthly Payment Loan Lender Warranties

In addition to the warranties stated in [Section 2.08](#), the Lender warrants the following:

- The Borrower's cash investment is paid from the Borrower's own funds (not debt or others' funds)
- The funds are applied to the transaction and verified through the Closing Disclosure

## 7.07 Second Mortgage Application and Loan Disclosure Procedures

The Lender must follow mortgage industry standard requirements for second mortgages when originating loans under the Monthly Payment Loan. See the [Downpayment Loan Disclosure Information](#) for guidance on disclosing downpayment assistance loans.

The Lender should consult with its compliance department or legal counsel for additional information and guidance in completing required disclosures.

## 7.08 Subordination

Minnesota Housing permits the subordination or replacement of the following down payment and closing cost loans only in cases where the Minnesota Housing First Mortgage loan is refinanced to a Step Up Program loan.

- Homeownership Assistance Fund (HAF) Loan
- Deferred Payment Loan (DPL)
- Deferred Payment Loan Plus (DPL+)
- Monthly Payment Loan (MPL)

For mortgages with the First-Generation Homebuyer Loan: Borrower may not have more than one Minnesota Housing First Mortgage, one HAF/DPL/DPL+/MPL loan and one First-Generation Homebuyer Loan open at a time. Review the Minnesota Housing subordination requirements and details in the [Subordination Options Guide](#).

## Chapter 8 – Minnesota Housing Loan Commitments

See Minnesota Housing's website for:

- The [Lock, Fee, and SRP Guide](#)
- The [Loan Commitment System Page](#)

## Chapter 9 – Document Requirements

### 9.01 Loan Processing and Closing

All loans submitted must meet the following requirements:

- Loans must be closed and disbursed before completing the True and Certify process in the Minnesota Housing loan commitment system.
- The Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan. All loan documents other than Minnesota Housing Forms must be industry standard and meet the requirements of U.S. Bank – HFA Division, the underlying loan product, and the insurer/guarantor, as applicable. See the [Minnesota Housing website](#) for more details on required forms.
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and required stages of the loan Lender is responsible for updating the Minnesota Housing Commitment System with any changes.
- Purchase and Non-Streamline Refinance loans underwritten utilizing industry standard automated underwriting systems require full documentation when verifying income and assets to confirm Minnesota Housing eligibility. (Streamline Refinance transactions should follow underlying product guidelines pertaining to income and asset documentation requirements.) Minnesota Housing requires the lender to obtain the Borrower’s income for Streamline Refinance transactions even if the underlying product guidelines do not and the income must meet program guidelines and be entered in Minnesota Housing loan commitment system.
- **Minnesota Housing forms may not be altered in any way.** Industry standard forms may not be altered in any way other than to add a company name and logo.
- Both the first mortgage loan and, if applicable, the second mortgage loan must be originated, closed or assigned under the name of the lender who is a party to the Minnesota Housing Participation Agreement and who locked the loan(s) in the Minnesota Housing loan commitment system.
- All first mortgage assignments must run directly from the Lender to U.S. Bank – HFA Division.
- All second mortgage assignments must run directly from the Lender to the Minnesota Housing Finance Agency.
- The Lender must submit final documents to U.S. Bank – HFA Division within 120 days of U.S. Bank – HFA Division’s loan purchase.
- Product specific requirements must be met: for Conventional HFA product requirements – refer to the [Fannie Mae HFA Preferred™ Product Description](#) and [Freddie Mac HFA Advantage® product descriptions](#) on [Minnesota Housing’s website](#).

## 9.02 Minnesota Housing Documentation/Delivery Requirements

U.S. Bank – HFA Division provides a Delivery Checklist form detailing specific documentation and delivery requirements in [Allregs](#). The Lender must fully execute and deliver documents within designated timeframes. In addition, the Lender must specifically warrant the following occurred:

- The Lender has reviewed any and all contracts in connection with the residence sale transaction to ensure compliance with this Procedural Manual

### Consequence for Non-Compliance

Documentation not delivered to U.S. Bank – HFA Division within the specified timeframes may result, at Minnesota Housing’s or U.S. Bank – HFA Division’s discretion, in the Lender repurchasing the loan or any other remedy as identified in this Procedural Manual. Minnesota Housing or U.S. Bank – HFA Division may also, at their discretion, extend the aforementioned timeframes identified in the Delivery Checklist.

## 9.03 Signature Requirements

Minnesota Housing accepts documents that are signed electronically. Under no circumstances may a Borrower or Co-Signer be required to sign a document electronically. The following criteria must be met:

- Must follow Minnesota Housing Electronic Signature policy (see [Legal Addendum Electronic Signatures](#))
- Must follow all counterparty requirements (i.e. U.S. Bank—HFA Division, GSE, FHA, VA, RD)
- Note: Questions about Remote Online Notary (Ron) can be directed to U.S. Bank – HFA Division

## 9.04 Records Retention

The Lender must retain any and all compliance documents, including compliance with Minnesota Housing program guidelines, as may be required by the Lender’s regulatory authority, the requirements of the underlying loan product, and the requirements of the insurer/guarantor, as appropriate.

Loan product and insurer/guarantor minimum or alternative documentation requirements do not relieve the Lender from the responsibility of acquiring and maintaining complete files, including all documents and materials as would customarily be required for servicing or loan audit.

## Chapter 10 – Servicing

### 10.01 Servicing

Loans committed in connection with the Step Up Program are purchased by U.S. Bank – HFA Division. Minnesota Housing may, at its discretion and subject to any contractual provisions between Minnesota Housing and U.S. Bank – HFA Division, choose, modify or change the Servicer.

### 10.02 Lender Servicing Responsibilities

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to U.S. Bank – HFA Division purchase, the Lender must perform all required servicing functions for the loan until it is transferred to U.S. Bank Servicing. This includes collecting and applying all loan payments for both the Step Up Program loan and the Monthly Payment Loan, if applicable, made by the Borrower(s) in accordance with State and Federal Servicing regulations. Loan payments collected must include the following:

- The Step Up Program loan monthly principal and interest
- The Monthly Payment Loan monthly principal and interest, if applicable
- 1/12th of annual property tax (escrows)
- Mortgage insurance, if applicable (escrows)
- Flood insurance, if applicable (escrows)
- Hazard insurance (escrows)
- Assessments, if applicable

In addition, the Lender must complete servicing activities for both the Step Up Program Loan and, if applicable, the Monthly Payment Loan:

- Maintain payment history indicating:
  - The breakdown of payment applied to principal, interest, and escrows
  - Any principal repayments
  - The remaining principal balance of the loan
  - The collection of any past due payments

The Lender must also provide to the borrower as applicable, any

- Required tax reporting
- Required servicing notices
- Servicing Transfer disclosure notices

The Lender must retain all statements, documents, and correspondence related to servicing the loan in the loan file that is transferred to U.S. Bank Servicing.

### 10.03 Assumption/Due-on-Sale

A Minnesota Housing first mortgage loan financed with either a Conventional loan or Rural Development loan product is due upon sale and may not be assumed. ([See section 7.01 No Assumptions on Monthly Payment Loans](#))

A Minnesota Housing first mortgage loan financed with either a Federal Housing Administration (FHA) or Veterans Administration (VA) loan product may be assumed only by persons who:

- At the time of the assumption, intends to occupy the property as their Principal Residence within 60 days of closing
- Does not have income that exceeds the current Minnesota Housing [Step Up Program income limits](#); and
- Is not purchasing or acquiring the residence at a cost that exceeds the current Minnesota Housing [Step Up Program Purchase Price Limits](#).

All assumption requests must be reviewed and approved by [U.S. Bank Servicing Department](#) and Minnesota Housing prior to the execution of any assumption documents.

Unless the loan assumption is approved in accordance with the above provisions for allowable assumptions, the loan is due upon sale or transfer of title.

### 10.04 Hardship Policy

Minnesota Housing has in place a hardship policy for its Monthly Payment Loan. The hardship policy may allow forgiveness either in part or in whole if a Borrower is experiencing a financial hardship(s) which prevents them from having the financial ability to pay back the full indebtedness. Hardship will be evaluated at the time of the instance and upon request of the Borrower. A determination will be made in accordance with servicing policies in effect at that time.

## Appendix A – Definitions

Table 2/Definitions

TERM	DEFINITION
Borrower	A person who receives funds in the form of a loan secured by real property with the obligation of repaying the loan and, in addition, any person purchasing the real property securing the loan, executing the promissory note, executing a guarantee of the debt evidenced by the promissory note, or signing a security instrument in connection with a loan.
Co-Signer	A party that is obligated to repay the loan. A Co-Signer assumes only personal liability and has no ownership interest in the property.
First-Time Homebuyer	A Borrower(s) who has not had an ownership interest in their principal residence in the three years preceding execution of the mortgage documents (loan closing).
Master Servicer	A company selected by Minnesota Housing to purchase, securitize and service mortgage loans originated pursuant to Minnesota Housing’s mortgage loan programs.
New Construction or Newly Constructed Residence	New Construction or a Newly Constructed Residence refers to a residence, which has either never been occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or bridge loan).
Owner Occupied	At least one Borrower must occupy the Property within 60 Days of signing the security instrument and continue to live in the home for the majority of the year during every year of the loan term, per underlying product guideline. Non-occupancy is allowed for situations of verified military deployment.
Participation Agreement	The Participation Agreement for Minnesota Housing Single Family Programs executed between the Lender and Minnesota Housing that allows the Lender to participate and offer Minnesota Housing’s Start Up and Step Up Program mortgage loan programs.
Primary Residence / Principal Residence	<p>A dwelling the Borrower and their household occupy as their permanent residence.</p> <p>A person may have only one Primary Residence at any one time.</p>

TERM	DEFINITION
	Residences used as second homes or temporary residences do not qualify as Primary Residences
Property Seller	The seller of the property under contract for sale to the Borrower who is using Minnesota Housing financing.
Qualified Homebuyer Education	<p>Homebuyer education is a course or program that teaches prospective buyers about the entire home-buying process, from financial readiness (budgeting, credit) and mortgage basics to searching for a home, closing costs, and the ongoing responsibilities of homeownership, often required for assistance programs or specific loans to ensure successful, sustainable ownership.</p> <p>See <a href="#">Section 4.06</a> of this Procedural Manual.</p>
True and Certify	The loan-level process in Minnesota Housing’s loan commitment system completed by the Lender that certifies all the information entered into the system is true and accurate.

## Appendix B – Forms List

See [Minnesota Housing's website](#) for required [Step Up Program forms](#) as well as the Step Up Program Process Guide and optional forms.

## **Appendix C – Legal Addendum**

### **C.01 Conflict and Control**

In the event of any conflict between the terms of this Addendum and the document to which it is attached, the terms of this Addendum will govern and control.

### **C.02 Fraud**

Fraud is any intentionally deceptive action, statement or omission made for personal gain or to damage another.

Any person or entity (including its employees and affiliates) that enters into a contract with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the communication channels described in section C.07 of this Addendum.

### **C.03 Misuse of Funds**

A contracting party that receives funding from Minnesota Housing promises to use the funds to engage in certain activities or procure certain goods or services while Minnesota Housing agrees to provide funds to the recipient to pay for those activities, goods or services. Regardless of the Minnesota Housing program or funding source, the recipient must use Minnesota Housing funds as agreed, and the recipient must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

A misuse of funds shall be deemed to have occurred when: (1) Minnesota Housing funds are not used as agreed by a recipient; or (2) a recipient cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the contract.

Any recipient (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the communication channels described in section C.07 of this Addendum.

### **C.04 Conflict of Interest**

A conflict of interest – Actual, Potential or Appearance of a Conflict of Interest – occurs when a person has an actual or apparent duty or loyalty to more than one organization and the competing duties or loyalties may result in actions which are adverse to one or both parties. A Potential Conflict of Interest or Appearance of a Conflict of Interest exists even if no unethical, improper or illegal act results from it.

- **Actual Conflict of Interest:** An Actual Conflict of Interest occurs when a person’s decision or action would compromise a duty to a party without taking immediate appropriate action to eliminate the conflict.
- **Potential Conflict of Interest:** A Potential Conflict of Interest may exist if a person has a relationship, affiliation or other interest that could create an inappropriate influence if the person is called on to make a decision or recommendation that would affect one or more of those relationships, affiliations or interests.
- **Appearance of a Conflict of Interest:** The Appearance of a Conflict of Interest means any situation that would cause a reasonable person, with knowledge of the relevant facts, to question whether another person’s personal interest, affiliation or relationship inappropriately influenced that person’s action, even though there may be no Actual Conflict of Interest.

A conflict of interest includes any situation in which one’s judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a Partner, Family Member, Relative, Friend, Business or other Outside Interest with which they are involved. Such terms are defined below.

- **Business:** Any company, corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual or any other legal entity which engages either in nonprofit or profit-making activities.
- **Family Member:** A person’s current and former spouse; children, parents, and siblings; current and former children-in-law, parents-in-law, and siblings-in-law; current and former stepchildren and stepparents; grandchildren and grandparents; and members of the person’s household.
- **Friend:** A person with whom the individual has an ongoing personal social relationship. “Friend” does not generally include a person with whom the relationship is primarily professional or primarily based on the person being a current or former colleague. “Friend” does not include mere acquaintances (that is, interactions are coincidental or relatively superficial). Social media friendships, connections, or links, by themselves, do not constitute friendship.
- **Outside Interest:** An Outside Interest may occur when an individual, their Family Member or their Partner has a connection to an organization via employment (current or prospective), has a financial interest or is an active participant.
- **Partner:** A person’s romantic and domestic partners and outside Business partners.
- **Relative:** Uncle or aunt; first or second cousin; godparent; godchild; other person related by blood, marriage or legal action with whom the individual has a close personal relationship.

Once made aware of a conflict of interest, Minnesota Housing will make a determination before disbursing any further funds or processing an award. Determinations could include:

- Revising the contracting party’s responsibilities to mitigate the conflict
- Allowing the contracting party to create firewalls that mitigate the conflict
- Asking the contracting party to submit an organizational conflict of interest mitigation plan
- Terminating the contracting party’s participation

Any person or entity (including its employees and affiliates) that enters into a contract with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all conflicts of interest through one of the communication channels described in section C.07 of this Addendum.

### **C.05 Assistance to Employees and Affiliated Parties**

Any party entering into a contract with Minnesota Housing for the purpose of receiving an award or benefit in the form of a loan, grant, combination of loan and grant or other funding is restricted in issuing a loan, grant, combination of loan and grant or other funding to a recipient (“Affiliated Assistance”) who is also: (1) a director, officer, agent, consultant, employee or Family Member of an employee of the contracting party; (2) an elected or appointed official of the State of Minnesota; or (3) an employee of Minnesota Housing, unless each of the following provisions are met:

- The recipient meets all eligibility criteria for the program;
- The assistance does not result in a violation of the contracting party’s internal conflict of interest policy, if applicable;
- The assistance does not result in a conflict of interest as outlined in section C.04 of this addendum;
- The assistance is awarded utilizing the same costs, terms and conditions as compared to a similarly situated unaffiliated recipient and the recipient receives no special consideration or access as compared to a similarly situated unaffiliated recipient; and
- The assistance is processed, underwritten and/or approved by staff/managers who are independent of the recipient and independent of any Family Member of the recipient. Family Member is defined in section C.04 of this Addendum.

A contracting party need not disclose Affiliated Assistance to Minnesota Housing. However, the contracting party must document and certify, prior to the award, that the Affiliated Assistance meets each of the provisions outlined above. This documentation must be included in the Affiliated Assistance file and must be made available to Minnesota Housing upon request. Affiliated Assistance that does not meet each of the provisions outlined above will be considered a violation of Minnesota Housing conflict of interest standards and must be reported by the contracting party through one of the communication channels outlined in section C.07 of this Addendum.

### **C.06 Suspension**

By entering into any contract with Minnesota Housing, a contracting party represents that the contracting party (including its employees or affiliates that will have direct control over the subject of the contract) has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing’s website for a list of [suspended individuals and organizations](#) (Go to mnhousing.gov, scroll to the bottom of the screen and select Report Wrongdoing, then select Suspensions from the menu).

## C.07 Disclosure and Reporting

Minnesota Housing promotes a “speak-up, see something, say something” culture whereby internal staff must immediately report instances of fraud, misuse of funds, conflicts of interest or other concerns without fear of retaliation through one of the communication channels listed below. External business partners (for example, administrators, grantees or borrowers) and the general public are strongly encouraged to report instances of fraud, misuse of funds, conflicts of interest or other concerns without fear of retaliation using these same communication channels.

- Minnesota Housing’s Risk and Internal Controls Director at 651.296.7608 or 800.657.3769 or by email at [MHFA.ReportWrongdoing@state.mn.us](mailto:MHFA.ReportWrongdoing@state.mn.us);
- Any member Minnesota Housing’s [Servant Leadership Team](#), as denoted on Minnesota Housing’s current organizational chart (Go to [mnhousing.gov](http://mnhousing.gov), scroll to the bottom of the screen and select About Us, select Servant Leadership Team); or
- [Report Wrongdoing or Concerns](#) (go to [mnhousing.gov](http://mnhousing.gov), scroll to the bottom of the screen and select Report Wrongdoing).

## C.08 Electronic Signatures

Minnesota Housing will use and accept e-signatures on eligible program documents subject to all requirements set forth by state and federal law and consistent with Minnesota Housing policies and procedures. The use of e-signatures for eligible program documents is voluntary. Questions regarding which documents Minnesota Housing permits to be e-signed should be directed to Minnesota Housing staff.

## C.09 Fair Housing Policy

It is the policy of Minnesota Housing to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to Minnesota Housing programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, familial status, gender identity or sexual orientation.

Minnesota Housing’s fair housing policy incorporates the requirements of Title VI of the Civil Rights Act of 1968; the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988; and the Minnesota Human Rights Act. Housing providers and other entities involved in real estate related transactions are expected to comply with the applicable statutes, regulations and related policy guidance. Housing providers should ensure that admissions, occupancy, marketing and operating procedures comply with non-discrimination requirements. Housing providers and other entities involved in real estate related transactions must comply with all non-discrimination requirements related to the provision of credit, as well as access to services.

In part, the Fair Housing Act and the Minnesota Human Rights Act make it unlawful, because of protected class status, to:

- Discriminate in the selection/acceptance of applicants in the rental of housing units;
- Discriminate in the making or purchasing of loans for purchasing, constructing or improving a dwelling, or in the terms and conditions of real estate related transactions;
- Discriminate in the brokering or appraisal of residential property;
- Discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- Discriminate in the extension of personal or commercial credit or in the requirements for obtaining credit;
- Engage in any conduct relating to the provision of housing that otherwise make unavailable or denies the rental of a dwelling unit;
- Make, print or publish (or cause to make, print or publish) notices, statements or advertisements that indicate preferences or limitations based on protected class status;
- Represent a dwelling is not available when it is in fact available;
- Refuse to grant a reasonable accommodation or a reasonable modification to a person with a disability;
- Deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions of membership or participation; or
- Engage in harassment or quid pro quo negotiations related to the rental of a dwelling unit.

Minnesota Housing has a commitment to affirmatively further fair housing for individuals with disabilities by promoting the accessibility requirements set out in the Fair Housing Act, which establish design and construction mandates for covered multifamily dwellings and requires those in the business of buying and selling dwellings to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

## **C.10 Minnesota Government Data Practices**

Minnesota Housing, and any party entering into a contract with Minnesota Housing, must comply with the Minnesota Government Data Practices Act, Minnesota Statutes Chapter 13, as it applies to all data provided by Minnesota Housing under the contract, and as it applies to all data created, collected, received, stored, used, maintained or disseminated by the contracting party under the contract. The civil remedies of Minnesota Statutes Section 13.08 apply to the release of the data referred to in this section by either the contracting party or Minnesota Housing. If the contracting party receives a request to release the data referred to in this section, the contracting party must notify Minnesota Housing. Minnesota Housing will give the contracting party instructions concerning the release of the data to the requesting party before the data is released. The contracting party's response to the request shall comply with applicable law.