

1 Housing Finance Agency

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3 Adopted Rules Governing Accessory Apartment Loans

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5 Rules as Adopted

6 4900.0581 DEFINITIONS.

7 Subpart 1. Scope. For the purposes of parts 4900.0581 to  
8 4900.0584, the following terms have the meanings given them.

9 Subp. 2. Accessory apartment loan. "Accessory apartment  
10 loan" means a loan the proceeds of which are used to construct  
11 an additional dwelling unit within a structure, or to improve  
12 not more than two rental dwelling units located in a structure  
13 that, at the time of the loan application, contains a total of  
14 not more than three dwelling units.

15 Subp. 3. Borrower. "Borrower" means one or more persons  
16 who apply for and receive an accessory apartment loan and who  
17 are the makers of a note in evidence of the loan.

18 Subp. 4. Dwelling unit. "Dwelling unit" means a housing  
19 unit that includes self-contained cooking, sleeping, and  
20 bathroom facilities, and is located in the structure. A  
21 dwelling unit may be occupied by either a tenant or the owner of  
22 the structure.

23 Subp. 5. Rental dwelling unit. "Rental dwelling unit"  
24 means a dwelling unit that is occupied by a person or household  
25 other than the owner of the structure and for which rent in cash  
26 or in kind is received by the owner.

27 Subp. 6. Structure. "Structure" means a building that was  
28 originally built as a single-family residence and that satisfies  
29 the eligibility requirements of part 4900.0582, subpart 5.

30 4900.0582 ELIGIBILITY REQUIREMENTS.

31 Subpart 1. Property interest. A borrower shall  
32 individually or in the aggregate possess at least a one-third  
33 interest in a fee ownership of, a contract for deed for, or a  
34 life estate in the property on which the structure to be  
35 improved is located.

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1 Subp. 2. Occupancy. If the proceeds of an accessory  
2 apartment loan are used to construct an additional dwelling  
3 unit, at least one of the borrowers shall occupy the structure  
4 as his or her principal residence at the time of loan  
5 application or shall occupy one dwelling unit within the  
6 structure within 60 days of the date of the note in evidence of  
7 the loan.

8 If the proceeds from an accessory apartment loan are used  
9 to improve one or more dwelling units, at least one of the  
10 borrowers shall occupy one of the dwelling units as his or her  
11 principal residence at the time of loan application.

12 Subp. 3. Credit worthiness. A borrower shall be a  
13 reasonable credit risk and shall be able to pay the loan  
14 obligation as determined under part 4900.0080.

15 Subp. 4. Borrower eligibility. A borrower shall meet  
16 either of the following standards to be eligible for an  
17 accessory apartment loan:

18 A. a borrower shall be a person or household of low  
19 or moderate income as defined in part 4900.0010, subpart 23; or

20 B. a borrower shall agree to rent all of the dwelling  
21 units that he or she does not occupy at a rate not to exceed the  
22 current United States Department of Housing and Urban  
23 Development (HUD) Fair Market Rents for Existing Dwellings in  
24 the section 8 program under the United States Housing Act of  
25 1937, United States Code, title 42, sections 1437 et seq. as  
26 amended through December 31, 1983, as determined and adjusted  
27 from time to time by HUD, for a period of at least one year from  
28 the date the dwelling unit is first occupied by a renter.

29 Subp. 5. Eligibility of structure. The structure to be  
30 improved or modified with the proceeds of an accessory apartment  
31 loan must comply with applicable zoning ordinances or other  
32 applicable land use guides upon completion of the construction  
33 or improvements.

34 If a borrower qualifies for a loan by satisfying the  
35 requirement in subpart 4, item A, the structure to be modified  
36 or improved must have been completed and occupied as a residence

1 for at least 90 days at the time of the loan application.

2 If a borrower qualifies for a loan solely by satisfying the  
3 requirements in subpart 4, item B, the structure to be modified  
4 or improved must be at least 15 years old at the time of loan  
5 application.

6 4900.0583 ELIGIBLE IMPROVEMENTS.

7 Subpart 1. Permanent general improvements. Proceeds from  
8 an accessory apartment loan must be used to finance only  
9 permanent general improvements. Permanent general improvements  
10 include additions, alterations, renovations, or repairs upon or  
11 in connection with existing structures. Permanent general  
12 improvements do not include materials, fixtures, or landscaping  
13 of a type or quality exceeding that customarily used in the  
14 locality for properties of the same general type as the  
15 structure to be modified or improved.

16 Subp. 2. Loan proceed restrictions. The proceeds from an  
17 accessory apartment loan must be used to finance only  
18 improvements or modifications to, or in connection with, an  
19 existing structure. The proceeds from an accessory apartment  
20 loan may be used as follows:

21 A. to add not more than one dwelling unit to a  
22 structure that is a single-family residence at the time of the  
23 loan application; or

24 B. to improve a structure that, at the time of the  
25 loan application, contains one or two rental dwelling units in  
26 addition to a dwelling unit occupied by the owner of the  
27 structure. Use of the proceeds from an accessory apartment loan  
28 for the type of structure described in this item is restricted  
29 to improvements that will bring all rental dwelling units into  
30 compliance with local zoning ordinances and other applicable  
31 health, fire prevention, building, and housing codes and  
32 standards.

33 The proceeds from an accessory apartment loan must not be  
34 used to pay for assessments for public improvements except if  
35 the improvements will bring an individual sewage disposal system  
36 (including septic system) located on the property on which the

1 structure is located into compliance with local, state, or  
2 federal environmental and sanitary standards.

3 Subp. 3. Energy conservation. If an existing or newly  
4 constructed rental dwelling unit does not comply with the state  
5 energy conservation standards for rental housing, the proceeds  
6 from an accessory apartment loan must be used to bring the  
7 rental dwelling unit into compliance with these standards.

8 Subp. 4. Time of completion. Improvements or construction  
9 financed in whole or in part by an accessory apartment loan must  
10 be completed within nine months of the date of the first  
11 disbursement of the loan except for delays due to causes beyond  
12 the borrower's reasonable control, such as fire, strike, and  
13 shortage of materials.

14 4900.0584 OTHER REQUIREMENTS.

15 Subpart 1. Unavailability of financing. At the time of  
16 application for an accessory apartment loan, conventional  
17 financing for this purpose must not be available from private  
18 lenders upon equivalent terms and conditions.

19 Subp. 2. Other codes and standards. Following the  
20 completion of construction or improvement, all rental dwelling  
21 units must comply with all applicable health, fire prevention,  
22 building, and housing codes and standards. However, an  
23 accessory apartment loan shall not be denied solely because the  
24 construction or improvements to be financed by it will not bring  
25 the entire structure into full compliance with these codes and  
26 standards.

27 Subp. 3. Warranty of workmanship and materials. Contracts  
28 for construction or improvement of a dwelling unit that are  
29 financed in whole or in part by the proceeds from an accessory  
30 apartment loan must contain a warranty of workmanship and  
31 materials that is approved by the agency.