



Housing Trust Fund Lending Policy

The City of Hermantown, Minnesota (the City) established the Housing Trust Fund (HTF) to support the development, rehabilitation, or financing of housing and support housing projects. In 2025, the Housing Trust Fund Ordinance was adopted by City Council. Because the Hermantown Economic Development Authority (HEDA) assumes primary responsibility for development activities within the City, and has adopted the powers of a Housing and Redevelopment Authority (HRA), HEDA was made the administrator of the fund on behalf of the City. The HEDA Executive Director, or designee, will administer and supervise the HTF program and the City's finance department will administer the fund.

The intent of this policy is to establish the City of Hermantown's guidelines for providing housing subsidy utilizing the HTF. Meeting the criteria within this policy does not guarantee a project will be approved, nor does it create any contractual rights on the part of the party requesting assistance. Any uses identified under Minnesota Statutes, Section 462C.16, Subdivision 3 "Authorized expenditures" are covered under this policy.

Guiding Principles

- **First Priority:** Preservation and rehabilitation of existing workforce rental housing with repairs focused on life-safety improvements and other efforts that sustain long-term occupancy for current residents.
- **Second Priority:** Construction financing that supports local entrepreneurial developers in the creation of new housing units.
- **Third Priority:** Land acquisition by HEDA for the purpose of creating workforce housing.
- **Targeted Income Levels:** Funding is limited to projects achieving rents or sale prices for households at or below 115% of the Area Median Income (AMI).

Application Process

- Businesses or developers seeking an HTF subsidy must complete an application for assistance. The specific required documentation may vary depending on the type of subsidy sought and are subject to the program-specific policies.

Development or Funding Agreements

Development and/or funding agreements with housing and development entities are required, with provisions for financial recovery, if appropriate, prior to distribution of funds. A development and/or funding agreement must be executed prior to distribution of funds. The agreement must also contain



provisions for financial recovery of the City's investment, if appropriate, depending on the financial characteristics of the housing program and/or development and the benefits to the community.

General Program Descriptions and Eligible Uses

- A. First Priority is preservation and rehabilitation of existing workforce rental housing with repairs focused on life-safety improvements and other efforts that sustain long-term occupancy for current residents.
 - a. Per unit funding amounts
 - i. \$50,000 maximum per unit
 - ii. Up to 50% of total rehabilitation costs up to a maximum of \$100,000
 - b. Building owner must contribute a one-to-one match on funds
 - c. Rent restrictions must be in force on 50% of the building units during the term of the loan, and gross rents must not exceed the 115% AMI
 - d. 0-2% interest repaid quarterly over a maximum of 10 years
 - i. A maximum interest rate three percentage points higher than the published Effective Federal Funds Rate at the time of violation will be charged for loans that violate the rent restrictions.
 - e. Owners must submit documentation regarding gross rent by bedroom size each year
- B. Secondary Priority is low cost construction financing that supports local entrepreneurial developers in the creation of new housing units.
 - a. Funding of for sale, owner-occupied units will fill the documented and established gap between the cost/unit to build and the sale price; up to 20% of the unit's sale price
 - i. Gap financing agreements must include payback of the loan upon permanent financing or 24 months, whichever is sooner
 - ii. Sale price of the new, owner-occupied units must not exceed 115% AMI purchase price.
 - b. Funding for rental units will fill the established gap between the cost/unit to build and the achievable rents with a maximum loan of \$50,000/unit
 - i. Rent restrictions must be in force during the term of the loan, and gross rents must not exceed the 115% AMI
 - ii. 0-2% interest repaid quarterly over a maximum of 10 years
 - iii. A maximum interest rate three percentage points higher than the published Effective Federal Funds Rate at the time of violation will be charged for loans that violate the rent restrictions.
 - iv. Owners must submit documentation regarding gross rent by bedroom size each year



- C. Statewide Affordable Housing Aid (SAHA) - Any project that meets the requirements imposed by Minnesota Housing for SAHA will utilize the funding provided from the state. Qualifying projects are as follows:
- a. Construction, acquisition, rehabilitation, demolition or removal of structures, construction financing, permanent financing, interest rate reduction, refinancing, and gap financing of housing to provide affordable housing for households that have incomes not exceeding:
 - b. For homeownership projects, 115% of the greater of state or area median income as determined by the United States Department of Housing and Urban Development
 - c. For rental housing projects, 80% of the greater of state or area median income as determined by the United States Department of Housing and Urban Development Those requirements are including providing such information to HEDA as may be requested for annual SAHA reporting.