The following addendum approved on 12/19/2025 reflects Suballocator's best efforts to maintain consistency with recent changes in IRS and HUD processes and policies related to compliance monitoring and with provisions of the Minnesota Housing Finance Agency Compliance Guide for the Low Income Housing Tax Credit program, where applicable. Except for the changes identified in the Addendum, all other provisions of the Suballocator Section 42 Compliance Manual dated 01/01/2023 remain in effect.

Updates for the LIHTC Compliance Manual include replacing references to and requirements of the U.S. Housing and Urban Development's (HUD) Uniform Physical Inspection Standards (UPCS) with the National Standards for Physical Inspection of Real Estate (NSPIRE). HUD replaced UPCS with NSPIRE in late 2023 and inspectors began inspecting all properties using the new standard in 2024.

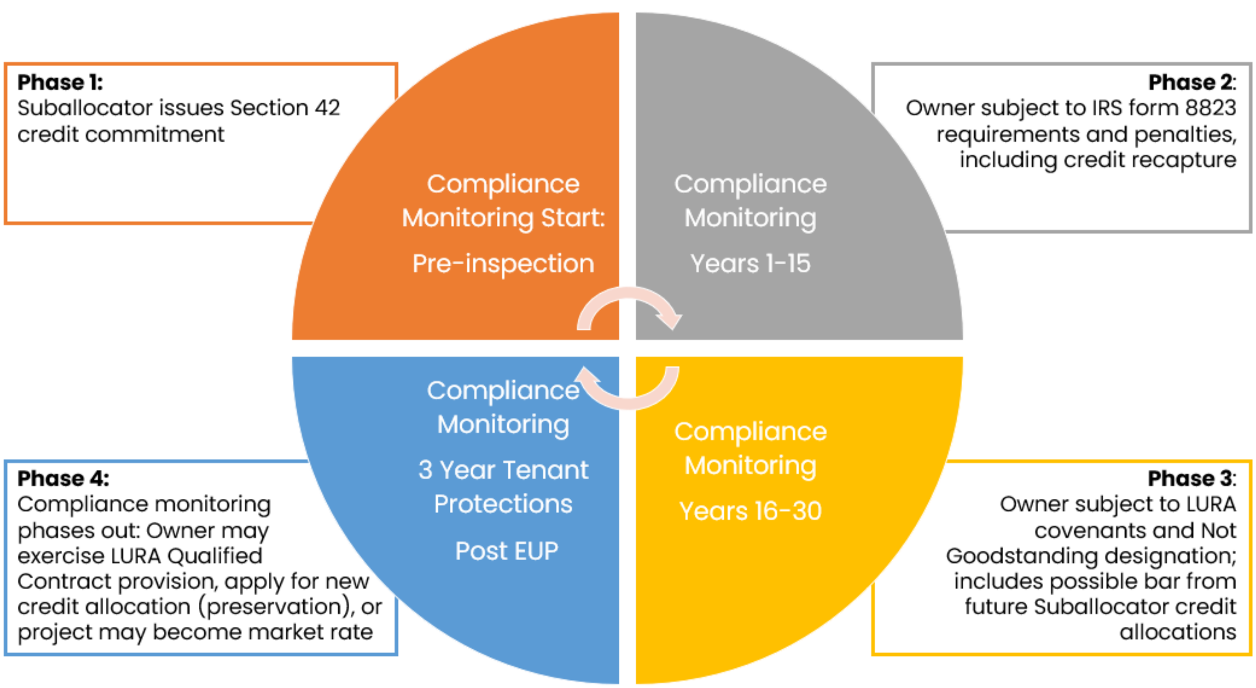
References to CHART (Consolidated Housing Annual Reporting Tool) have been replaced with CHARTConnect.

Other specific changes include:

**Section 4.07 Annual Monitoring Fees:** Suballocators have approved compliance monitoring fees for service by individual Project based on the specific compliance requirements applicable to each phase of the Project Life Cycle over a five-year period (2024–2028).

Each Project has a defined **Project Life Cycle** consisting of four (4) separate and distinct phases, each with its own monitoring requirements:

**The Compliance Monitoring Project Life Cycle**






Affordable Housing CONNECTIONS

Authorized annual monitoring fees cover the costs of conducting compliance monitoring throughout a Project's Life Cycle. Monitoring and reporting costs, and the resulting fees, vary based on the Set-Aside Election identified on IRS Form 8609, the type of review conducted (Desk Audit only or Desk Audit with Site Visit), and the Project's Life Cycle Phase.

AHC will invoice Project Owners for an Average Annual Fee each September. Payment must be received by the due date indicated on the invoice. Suballocators are not responsible for payment of these fees.

All LIHTC Projects receive an annual Desk Audit. Desk Audit fees are calculated based on the total number of units in the project. Site Visit fees are calculated based on the number of LIHTC tenant files reviewed and units inspected. LIHTC Projects receive a Site Visit every three (3) or five (5) years, depending on the Project's Life Cycle Phase.

Each annual invoice represents an average of the Project's total monitoring fees (Desk Audit and Site Visit) over the proposed monitoring period.

If a Project requires additional reviews due to egregious noncompliance, the Owner will be charged additional fees at the same rates. Additional fees may also be assessed if a Site Visit cannot be completed after a Bright Line Date Notice has been issued.

**LIHTC Monitoring Consulting Services Final Fee Schedule:**

Project Owners are invoiced annually for an Average Annual Fee during the proposed monitoring period. Fees are calculated and averaged over a shorter duration if a Project begins its Life Cycle after January 1, 2024, or completes its Life Cycle before December 31, 2028.

All fees for Projects monitored in accordance with Section 42 are invoiced directly to, and payable solely by, the Project Owner.

**LIHTC Pre-Inspection Monitoring Review; Phase 1:**

| | |
|---|---|
| **Documents Review**: | |
| 40/60 or 20/50 Set Aside 8609 Election: | $750/project (one-time only fee) |
| Average Income Set Aside 8609 Election: | $975/project (one-time only fee) |
| **Annual Desk Audit:** | |
| CHART© Owner Certification Review: | $100/project (annual fee) |

**LIHTC Desk Audit Monitoring Review; Phases 2 and 3:**

| | |
|---|---|
| 40/60 or 20/50 Set Aside 8609 Election: | $70/unit, minimum of $975/project |
| Average Income Set Aside 8609 Election: | $90/unit, minimum of $975/project |

**LIHTC Site Visit Monitoring Review; Phases 2 and 3:**

| | |
|---|---|
| Tenant File Review: | $50/file, minimum of $975/project |
| Physical Inspection: | $50/unit, minimum of $975/project |

**LIHTC Desk Audit Monitoring Review; Phase 4:**

Tenant Protection: $100/project (annual fee)

**Optional Additional Costs:**
**Review of Request for Utility Allowance Change in Methodology:**

$500/request/project

**Section 5.04 Minimum Lease Requirements & Good Cause Termination:**
**VAWA Lease Addendum and Minnesota Housing Attachment to VAWA Lease Addendum**
To comply with the statutory provisions of the Violence Against Women Act (VAWA), owners must use the VAWA Lease Addendum form HUD-91067 or its successor form. In addition, beginning July 1, 2025, all new leases and all amended/renewed leases effective on or after July 1, 2025, are required to have the Minnesota Housing Attachment to VAWA Lease Addendum (not required for units with project-based section 8 using the HUD model lease).

**Section 6 Income Determinations:** The Housing Opportunities Through Modernization Act (HOTMA) was signed into law on July 29, 2016 (Public Law 114–201, 130 Stat. 782). The HOTMA statute consists of 14 sections of law that affect the Public Housing and Section 8 rental assistance programs. On September 17, 2019, HUD issued a proposed rule to update its regulations according to HOTMA's statutory mandate. The proposed rule may be found at 84 FR 48820 (September 17, 2019). Sections 102 and 104 of HOTMA make sweeping changes to the United States Housing Act of 1937 (1937 Act), particularly those affecting income calculations and reviews. For guidance on HOTMA implementation, refer to HUD Notices 2023-10 and 2024-9, and any successor guidance found on HUD's HOTMA webpage.

**Section 6.06 Annual Income:** For certifications and recertifications effective before January 1, 2027 (or such later date as HUD may require full HOTMA implementation), refer to HUD Handbook 4350.3 for a complete listing and discussion of earned/unearned income and asset income.

For certifications and recertifications effective on or after January 1, 2027, or such later date determined by HUD when the Housing Opportunities Through Modernization Act (HOTMA) must be fully implemented, refer to the guidance below and HUD Notice 2023-10. Attachment F to Notice 2023-10 defines annual income to include all amounts received from all sources by each member of the family who is 18 years of age or older, the head of household, or spouse of the head of household, in addition to unearned income received by or on behalf of each dependent who is under 18 years of age. Annual income does not include amounts specifically excluded in paragraph (b) of 24 CFR § 5.609.

> **Foster Adults and Children:** Change 4 to HUD Handbook 4350.3, published in 2013, required that foster adults and foster children be counted as household members for both income and occupancy purposes. With the implementation of HOTMA, foster adults and foster children are no longer considered in family size for income purposes but must be considered for unit size purposes.

**Student Financial Assistance:** Prior to HOTMA, all forms of student financial assistance (grants, scholarships, educational entitlements, work study programs, Bureau of Indian Affairs student assistance programs and financial aid packages) were excluded from annual income except for students receiving Section 8 assistance. For students receiving Section 8 assistance, all financial assistance a student received, 1) under the Higher Education Act of 1965, 2) from private sources, or 3) from an institution of higher education that is in excess of amounts received for tuition and any other required fees and charges (refer to HUD Notice H2015-12) was included in annual income except if the student was over the age of 23 with dependent children or living with parents receiving Section 8 assistance.

The primary difference between the Section 8 and HOTMA student assistance approaches are how the Higher Education Act of 1965 (HEA) assistance and money from private sources (such as parents and grandparents) are counted. Under HOTMA, HEA assistance is not counted as income, and money from private sources is gift income, not student financial assistance.

**Section 6.07 Annual Income Exclusions:** For certifications and recertifications effective before January 1, 2027 (or such later date as HUD may require full HOTMA implementation), refer to HUD Handbook 4350.3 for a complete listing and discussion of income exclusions.

Refer to HUD Notice 2023-10 Attachment G for changes in exclusions resulting from HOTMA for certifications effective on or after January 1, 2027 (or such later date as HUD may require full HOTMA implementation).

**Section 6.09 Income from Assets:** For certifications and recertifications effective before January 1, 2027 (or such later date as HUD may require full HOTMA implementation), refer to HUD Handbook 4350.3 for a complete listing and discussion of income from assets.

For certifications effective on or after January 1, 2027 (or such later date as HUD may require full HOTMA implementation), refer to HUD Notice 2023-10 Attachment F for changes resulting from HOTMA.

Under HOTMA, assets have three categories:
• Necessary Personal Property
• Non-Necessary Personal Property
• Real Property

Assets include the net cash value of all real property and the net cash value of all non-necessary items of personal property.

**Necessary Personal Property**
Necessary Personal Property (NPP) are items that are essential to the family for maintenance, use, and occupancy of the residence, or necessary for employment, education, or health and wellness. NPP also includes items that assist persons with disabilities, including items for disability-related needs and items required for reasonable accommodation. NPP does not include luxury items.

Owners must determine whether an item is considered necessary or non-necessary to determine whether it should be included as an asset. This is a highly fact-specific determination. Therefore, owners must collect enough facts to make this determination. If an item is considered necessary personal property, it is not included as an asset.

Examples of NPP (list is not exhaustive):

- Car(s)/vehicle(s) that a family relies on for transportation for personal or business use (e.g., bike, motorcycle, skateboard, scooter)
- Furniture, carpets, linens, kitchenware
- Common appliances
- Common electronics (e.g., radio, television, DVD player, gaming system)
- Clothing
- Personal effects that are not luxury items (e.g., toys, books)
- Wedding and engagement rings
- Jewelry used in religious/cultural celebrations and ceremonies
- Religious and cultural items
- Medical equipment and supplies
- Healthcare-related supplies
- Musical instruments used by the family
- Personal computers, phones, tablets, and related equipment
- Professional tools of trade (e.g., professional books)
- Educational materials and equipment, including equipment to accommodate persons with disabilities
- Equipment used for exercising (e.g., treadmill, stationary bike, kayak, paddleboard, ski equipment

**Non-Necessary Personal Property**

If personal property is not deemed necessary, as HUD guidance provides, then it is considered Non-Necessary Personal Property (NNPP) and may need to be included as an asset.

Under HOTMA, the combined value of NNPP up to the amount that HUD allows to be self-certified is excluded from net family assets, but any income earned by these assets is included in gross annual household income. Refer to HUD's website for the current amount of assets HUD allows to be self-certified (updated annually, adjusted for inflation).

If the total value of NNPP exceeds the amount HUD allows to be self-certified, owners must verify all asset amounts and any income earned. If an asset does not earn income, owners must use HUD's passbook savings rate to calculate an imputed income. Refer to HUD's website for the current passbook savings rate (updated annually, adjusted for inflation).

Examples of NNPP (list is not exhaustive):

- Bank accounts or other financial investments (e.g., checking account, savings account, stocks/bonds, money market or mutual funds, certificates of deposit)

• A mortgage or deed of trust held by an applicant or resident (e.g., contract for deed or deed of trust). Payments on this type of asset are often received as one combined payment of principal and interest with the interest portion counted as income from the asset

• Cash value of life insurance policies available to the individual before death (e.g., the surrender value of a whole life policy or a universal life policy).
• Recreational car/vehicle not needed for day-to-day transportation (e.g., campers, motorhomes, travel trailers, all-terrain vehicles (ATVs))
• Recreational boat/watercraft
• Expensive jewelry without religious or cultural value, or which does not hold family significance
• Collectibles (e.g., coins/stamps)
• Equipment/machinery that is not used to generate income for a business
• Items such as gems/precious metals, antique cars, artwork, etc.
• Assets disposed of for less than fair market value within 2 years of the effective date of the certification (Assets lost to foreclosure, bankruptcy, divorce or separation settlements are not counted as disposed of assets. Assets put into an irrevocable trust for another member of the same household are also not counted as disposed. Neither are assets that are simply used to buy goods or services that are not counted as assets.)

**Real Property**
The value of real property is always counted as an asset.

Equity in rental property or other capital investment. Include the current fair market value less (a) any unpaid balance on any loans secured by the property; and (b) reasonable costs that would be incurred in selling the asset (i.e., penalties, broker fees, etc.). If the person's main business is real estate, then count any income as business income. Do not count it as an asset and as business income.

Only the interest portion of the monthly payment received by the tenant is included as income. For interest income from the sale of real property, if said property was sold on an installment sales contract, request:
• A letter from an accountant, attorney, real estate broker, the buyer, or a financial institution stating interest due for the next 12 months. (A copy of the check(s) paid by the buyer to the tenant is NOT sufficient since appropriate breakdowns of interest and principal are not included.); or
• Amortization schedule showing interest for the 12 months following the date the purchaser intends taking occupancy.

For rental income from property owned by the tenant, request:
• IRS Form 1040 with Schedule E (Rental Income).
• Lease between the tenant and the tenant's renter.
• Lessee's written statement identifying monthly payments due to the tenant from the renter and tenant's affidavit as to net income realized.

**Section 6.10 Household Assets Do Not Include:**
• NPP including clothing, furniture, cars, etc.

• Retirement accounts under IRS-recognized retirement plans (e.g., IRA, employer retirement plans, and retirement plans for self-employed individuals). Note that regular distributions or withdrawals from such accounts are treated as income.
• Real property without legal authority to sell

• Legal settlements from civil actions or settlement based on a claim of malpractice, negligence or other breach of duty owed to a family member, for an incident resulting in a disability
• Interests in Indian land trusts
• Coverdell or 529 education savings accounts, ABLE accounts, "baby bond" accounts
• Term life insurance policies
• Equity in a manufactured home where the family receives assistance under 24 CFR Part 982 (Housing Choice Voucher)
• Equity in property under the Homeownership Option for which a family receives assistance under 24 CFR part 982.
• Family Self-Sufficiency Accounts
• Federal tax refunds or refundable tax credits from the 12 months prior to the certification effective date (e.g., Earned Income Tax Credits). Note that HUD instructs owners to subtract the value of any tax return that a household has received in the last 12 months from total net assets. This may mean self-certification of assets is allowed if subtracting the refunds or refundable credits puts the total value of net assets below the amount HUD allows to be self-certified.
• Trust funds that are not revocable by, or under the control of, any family member as long as they continue to be held as such. When a trust is in the control of a household it is an asset to the household, and income is counted as the trust generates it. Distributions/withdrawals from the trust in the household's control are not counted as income. When a trust is NOT in the control of a household it is NOT an asset to the household. Distributions received from the trust are income except for the following two exclusions: 1. Distributions from the principle or corpus of the trust. 2. Distributions that are made to pay for the health and medical expenses of a minor child.
• Assets that are part of an active business (not including rental of properties that are held as investment and not a main occupation)
• Assets that are not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household, and that other person is responsible for income taxes incurred on income generated by the assets.
• Assets not accessible to the applicant and provide no income to the applicant (e.g., a battered spouse owns a house with her husband. Because of the domestic situation, s/he receives no income from the asset and cannot convert the asset to cash).

Section 6.12 Instructions for Valuing Assets:
**When total net assets exceed the amount HUD allows to be self-certified** (when HOTMA implementation guidance was released, this amount was $50,000), income from assets is no longer determined based on the greater of actual or imputed income from the assets. Instead, imputed asset income must be calculated for specific assets when three conditions are met:

1. The value of net family assets exceeds the amount HUD allows (to be updated annually) to be self-certified;
2. The specific asset is included in net family assets; and
3. Actual asset income cannot be calculated for the specific asset.

Imputed asset income is calculated by multiplying the net cash value of the asset, after deducting reasonable costs that would be incurred in disposing of the asset, by the current HUD-published passbook rate.

To properly calculate income from assets:
1. Review the list of assets provided by the applicant or resident.
2. Categorize assets as NPP, NNPP, and real property.
3. Exclude any NPP.
4. Determine the total value of NNPP. a. If the total value of all NNPP is less than the amount HUD allows to be self-certified, assign a $0 value to each asset, but calculate income, if any.
b. If the total value of all NNPP exceeds the amount HUD allows to be self-certified, fully verify the assets, assign the net value of the asset and calculate actual or imputed income to each asset.
5. Add NNPP to any real property. If the total value exceeds the amount HUD allows to be self-certified, impute income for any assets that cannot otherwise have income determined.
6. Subtract any federal tax return or refundable tax credit the household received in the past 12 months (if an applicant anticipates a $500 federal tax refund but only receives $250, then only $250 will be excluded from net assets because that is the amount actually received. If the subtraction results in a negative number, then net family assets are considered $0.