STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

In the Matter of the Proposed Amendment to and Adoption of Rules of the Minnesota Housing Finance Agency Relating to Income Limits for Limited Unit Developments

Statement of Need and Reasonableness

12 MCAR §3.002 O

Minnesota Statutes, Section 462.A.03, Subdivision 10, requires that the Minnesota Housing Finance Agency (Agency) establish in its rules income limits for the purpose of defining persons and families of low and moderate income. The sources for definition of low and moderate income persons and families are two Agency rules; 12 MCAR §3.002 O establishes maximum limits for adjusted income for Agency programs therein specified, and adjusted income is, in turn, determined pursuant to a formula set forth in the definition in 12 MCAR §3.002 N.

The proposed rule defines persons and families of low and moderate income as those whose adjusted income does not exceed the amounts set forth in Exhibits 12 MCAR §3.002 O.-3 and 12 MCAR §3.002 O.-4. By its terms, the rule applies to programs for three types of housing: limited unit developments, dwelling units in a planned unit development and condominiums. The term "limited unit development" refers to new or existing residential housing intended for occupancy by a person or family of low and moderate income and by not more than 5 other families (see 12 MCAR §3.002 V).

It is necessary to increase the income limits as shown because of increased interest rates on Agency mortgage revenue bonds and the rising costs of both new and existing homes throughout the State. It is also necessary to propose a set of income limits based on the Agency's cost of obtaining money, rather than one income limit. Uncertain bond market conditions make it difficult to implement a program based on one income limit, since income limits are a function of what interest rates must be charged to the mortgagor to meet the Agency's cost of money, as determined in each bond sale.

Minnesota Statutes §462.A.03, Subdivision 10, specifies four criteria for determination of persons and families of low and moderate income. They are (1) the amount of total income of such persons and families available for housing needs, (2) the size of the family, (3) the cost and condition of housing facilities available, (4) the eligibility of such persons and families to compete successfully in the normal housing market and to pay the amounts at which private enterprise is providing sanitary, decent, and safe housing.

In reference to the first of the criteria set forth above, i.e., "the amount of total income of such persons and families available for housing needs", the general underwriting standard in the mortgage loan industry is that the estimated monthly mortgage payment (principal, interest, taxes, and insurance) should not exceed 28% of gross monthly income. This standard was applied in arriving at the maximum adjusted income limits specified in Exhibits 12 MCAR §3.002 O.-3 and 12 MCAR §3.002 O.-4. The standard assumes that families able to pay less than 28% of their income are not low and moderate income, and should not be eligible to purchase houses from the funds made available for the various Agency Programs under this rule.

The second criterion specified in the statutory definitions of persons and families of low and moderate income is the size of the family. This factor is addressed by the Agency in the formula for adjusting income under 12 MCAR §3.002 N, which was applied in arriving at the maximum adjusted income that would be available for housing needs.

The third criterion specified in the statute as set forth above is the cost and condition of housing facilities available. The cost of both new and existing homes has risen substantially in recent years, and should continue to rise in the immediate future. The proposed set of income limits will allow a household to purchase a new home at $83,000 in the Seven County Twin City Metropolitan Area, or $63,000 in the balance of the state, or an existing home at $75,000 in the Seven County Twin City Metropolitan Area or $50,000 in the balance of the state. In light of current house prices for new and existing homes, these home prices are reasonable.

The fourth criterion specified in the statute is the ability of such persons and families to compete in the normal housing market. With current conventional mortgage interest rates of about 13½% and, using industry underwriting standards, a family would have to have an adjusted income of at least $42,000 to afford a $75,000 existing home in the Seven County Twin City Metropolitan Area. The type of relationship between the adjusted income limit needed to qualify for an existing home in the Twin City Metropolitan Area and the adjusted income levels for such a home proposed under this rule exists for the other income limits proposed.

The Agency, through these rules, offers a family of lower income the ability to purchase housing of similar cost by virtue of the Agency's capacity to provide below market interest rate financing.

Purchase money loan recipients under chapter 4 of these rules are limited to natural persons and families of low and moderate income who acquire homes with the intent to own and occupy such dwellings as their principal places of residence; and, consequently, the portion of the proposed rules relating to homeownership purchase money loans is not intended to and does not affect small businesses directly.

The proposed regulation's income limits as they apply to loans under chapter 8 of these rules pertain to loans to American Indians of low and moderate income, whereas the recipients of the development cost loans referred to in chapter 3 are non-profit corporations, and the applicants for planning grants pursuant to chapter 5 of the rules must be local communities. Accordingly, while the Agency is cognizant of the provisions of Section 14.115 of Minnesota Statutes relating to the effect of rulemaking on small businesses, since the proposed regulation does not affect small businesses directly the said law, by its terms, is inapplicable to this rule. Further, to the extent that the loans which are the subject of this proposed rule may indirectly affect small businesses, the effect of the regulation is to make such loans more capable of feasible underwriting, and, consequently, more obtainable; and, as a result, the proposed rule has no negative effect on small businesses.

STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

In the Matter of the Proposed
Amendment to and Adoption of
Rules Governing Eligibility for
the Homeownership Assistance
Fund

Statement of Need
and Reasonableness

12 MCAR §3.133.

Minnesota Statutes, Section 462A.21, Subdivision 8, authorizes the Minnesota Housing Finance Agency (MHFA) to establish a homeownership assistance fund (HAF) on terms and conditions it deems advisable, to assist persons and families of low and moderate income in paying installments of eligible loans for affordable housing and in providing the required equity investment enabling such persons to purchase an affordable home.

The present annual adjusted income limits and initial maximum monthly assistance were established in 1981. MHFA proposes no increase in the initial maximum HAF monthly assistance. However, it is necessary to increase the adjusted income limits because of increased rates on MHFA mortgage revenue bonds and the rising cost of housing throughout the state. It is also necessary to propose a set of income limits based on the Agency's cost of obtaining money, rather than one income limit. Uncertain bond market conditions make it difficult to implement a program based on one income limit, since income limits are a function of what interest rates must be charged to the mortgagor to meet MHFA's cost of money, as determined in each bond sale.

The adjusted income limits and initial maximum monthly assistance levels will allow a household to purchase a $60,000 home in the Seven County Twin City Metropolitan Area and a $40,000 home in the balance of the state. These home purchase price levels are substantially below the purchase price limits established for the Single Family Mortgage Loan Program by the Agency Board ($83,000 in the Seven County Twin City Metropolitan Area and $63,000 in the balance of the state) as the Board believes that (a) households requiring additional subsidy need not purchase the maximum priced house the Single Family Mortgage Loan Program would allow and (b) the additional amount of subsidy needed to reach higher priced homes would be cost prohibitive.

The Agency also proposes by its rule amendment to limit recipients of assistance to provide required equity investment in a home to individuals eligible to receive monthly assistance, so that limited funds may be targeted to those households of greater financial need.

The Agency is mindful of the provisions of Section 14.115 of Minnesota Statutes, entitled Small Business Considerations in Rulemaking, but since the recipients of HAF loans under the proposed regulation must be natural persons and families of low and moderate income who purchase a home with a first mortgage from the Agency, the regulation does not affect small businesses directly, and the said law, by its terms, is inapplicable to this proposed regulation. Further, to the extent that the HAF loans which are the subject of this regulation may have an indirect effect on small businesses, the effect of the proposed rule is to make such loans more capable of feasible underwriting, and, consequently, more obtainable; and, as a result, the proposed rule has no negative effect on small businesses.