STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

Proposed Amendment to and Adoption of Rules Governing Income Limits for Limited Unit Developments Without a Public Hearing.

STATEMENT OF

NEED AND REASONABLENESS

12 MCAR 3.002 (O).

Minnesota Statutes, Section 462A.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. This is established in two Agency rules. In 12 MCAR §3.003(O) maximum adjusted income limits are established. Adjusted income is, in turn, determined pursuant to a formula set in the definition in 12 MCAR § 3.002 (N). The adjusted income limits were most recently set in May of 1979 at $19,000 in the metropolitan area as defined in Minnesota Statutes, Section 473.121, subdivision 2 and at $17,500 in the nonmetropolitan areas in the State. 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 Exhibit 12 MCAR § 3.002 (O)-1. 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 because interest rates and house prices have risen substantially since 1979. It is also necessary to propose a set of income limits rather than one income limit. Uncertain bond market conditions make it difficult to plan a program based on one income limit. Tables 1 and 2 illustrate the uncertainty of the bond market. These tables show the fluctuations in the Bond Buyer weekly 20 year revenue bond index for several time periods in the past year. The income limit will be based on the interest rate charged to the mortgagor. For example (see Exhibit 12 MCAR §3.002(O)) if the interest rate on the mortgages is 11.25%, the maximum income limit in the metropolitan area will be $26,000 and in the nonmetropolitan area $21,000. The Agency is not proposing either a variable rate program or a variable income limit program. The same interest rate will be charged to all mortgagors.

Exhibit 1 MCAR § 3.002(O)-1

	Nonmetropolitan Area	Metropolitan Area
Mortgage Interest Rate	Maximum Adjusted Income	Maximum Adjusted Income
0-10.59%	$19,000	$24,000
10.60-11.09%	$20,000	$25,000
11.10-11.59%	$21,000	$26,000
11.60-12.00%	$22,000	$27,000

Minnesota Statutes, Section 462A.03, subdivision 10 specifies four criteria for the 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 facilitities 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. These criteria will be reviewed in more detail below.

The first criterion specified in Section 462A, subdivision 10 is "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. The analyses below will use this standard.

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 is not the subject of amendment of this rule hearing. The Agency Board did, however, take the income adjustments in 12 MCAR § 3.002(N) into account in the analysis leading to a determination that the rule establishing income levels needed to be amended. The typical household receiving a home mortgage loan under the existing Agency program has $2,000 in deductions. Under 12 MCAR § 3.002(N), such a household typically receives a $750 deduction for each adult ($1,500) and $500 for a child for a total of $2,000. Throughout this Statement of Need and Reasonableness both gross and adjusted income will be given, although it is the level of adjusted income which is being set in the amended rule. The difference in the two figures will always be $2,000 for the purposes of the analyses below.

The third criterion specified in the statute is the cost and condition of housing facilities available. Table 3 shows actual house prices for 1975 through 1980 and projected prices for 1981 through 1982. House prices have risen substantially since 1975 and should continue to rise in the immediate future. House prices have risen faster in the metropolitan area than in the nonmetropolitan areas in the State. By 1980 the median house price in the metropolitan area was 50% more than the median price in the nonmetropolitan areas of the State. The proposed set of income limits will allow a household in the metropolitan area to purchase a $60,000 house (the proposed existing price limit) and a $50,000 house in the nonmetropolitan areas of the State (the proposed existing house price limit).

Next, table 4 shows the relationship between interest rates and income limits in the metropolitan area (the same relationship also exists for these interest rates and the proposed income limits for the nonmetropolitan areas of the State). For example, with a 10.5% loan a household with a gross annual income of $26,000 or an adjusted income of $24,000 could afford a $60,000 house. However, a household with a 12% loan would need an adjusted income of $27,000 (gross of $29,000) to afford a house price of $60,000.

Table 5 shows the availability of housing and the relationship between house prices, interest rates and income. This table shows the maximum house price that a household with a gross income of $26,000 (adjusted $24,000) could afford at various interest rates. For every 1% increase in interest rate the maximum house price drops approximately $3,000. The table also shows that the number of houses sold drops rapidly with decreases in price.

In 1980 approximately 43% of all houses in the metropolitan area sold below $60,000, but only 7% sold below $41,000.

The proposed income limits are designed to provide an adequate selection of affordable houses.

The fourth criterion specified in the statute is the ability of such persons and families to compete in the normal housing market. In both tables 4 and 5 the Agency has included the current FHA/VA interest rate of 16.5%. As table 5 shows the purchase of a $60,000 house with a 16.5% mortgage requires a gross annual income of $38,000; or as table 6 shows a household with a gross income of $26,000 ($24,000 adjusted) and a 16.5% mortgage could only afford a $41,000 house. In 1980 a detached house selling for under $41,000 in the metropolitan area was probably not safe, decent and sanitary. It is obvious then that families with incomes in the ranges proposed in this amended rule could <u>not</u> compete in the normal housing market.

TABLE 1

THE MONTHLY BOND BUYER INDEX FOR 20 YEAR REVENUE BONDS FROM 2/17/78 TO 3/20/81.

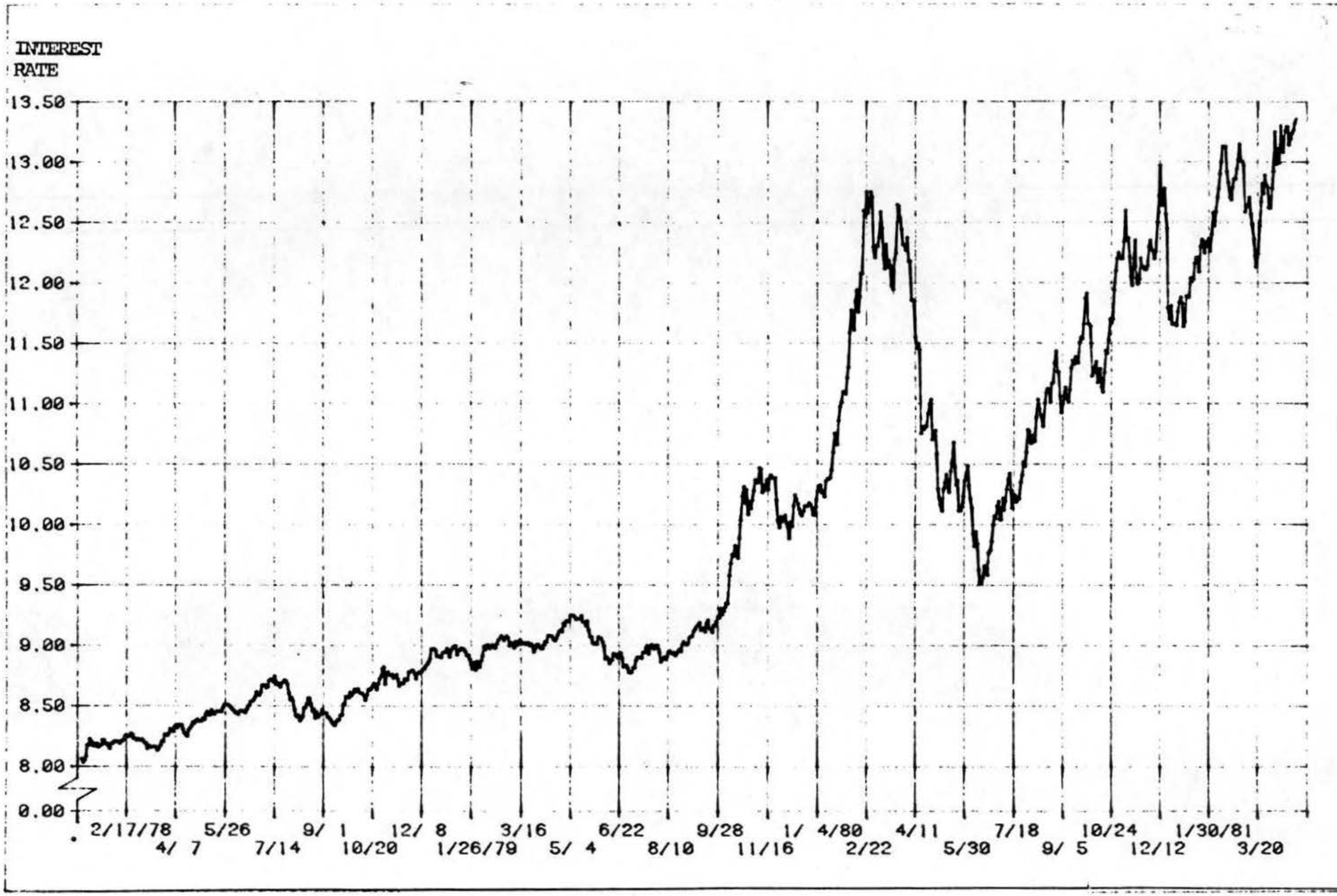


TABLE 2

THE WEEKLY BOND BUYER INDEX FOR 20 YEAR REVENUE BONDS FROM 10/10/80 TO 4/24/81.

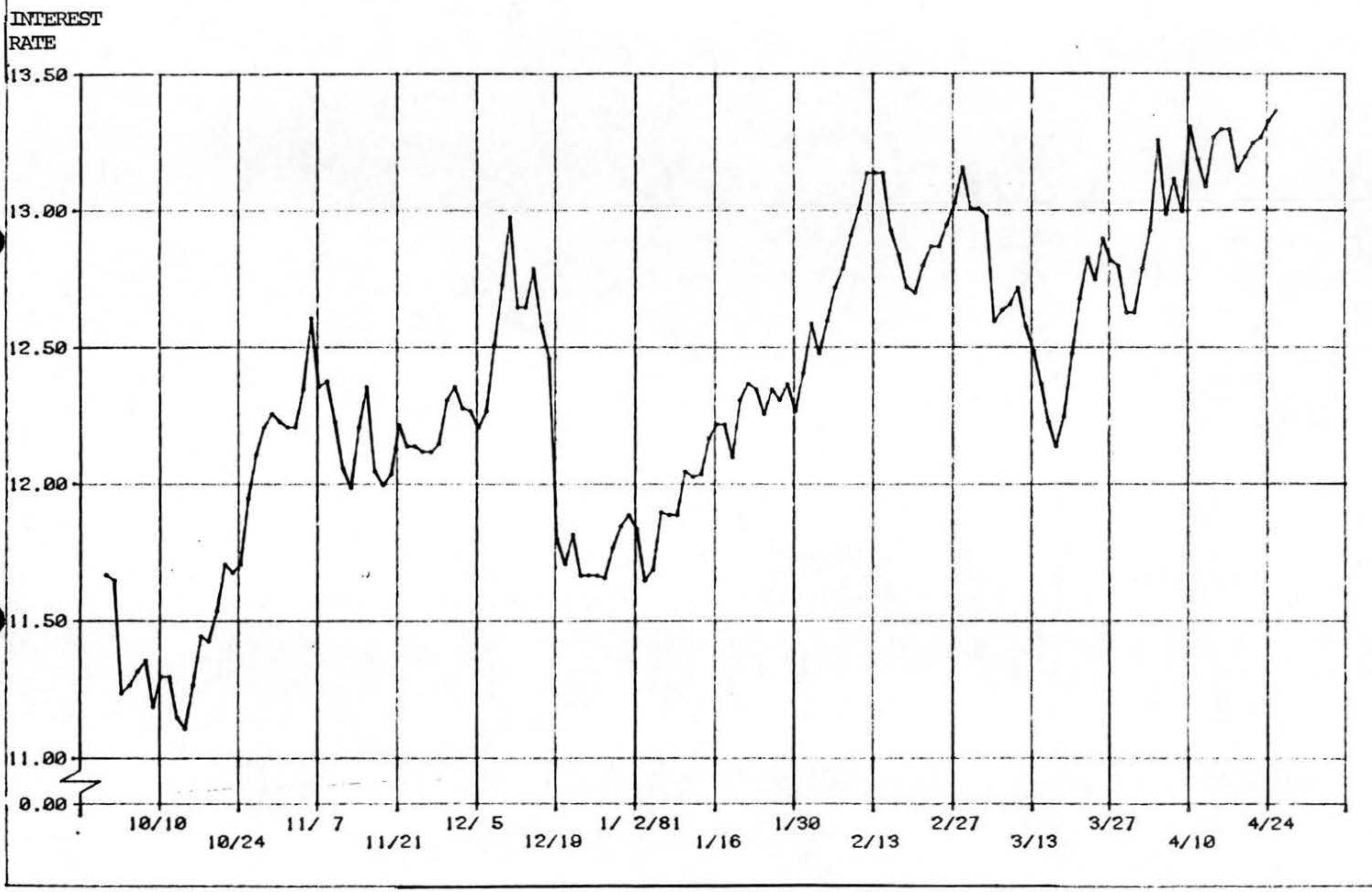


TABLE 3

MEDIAN HOUSE PRICES IN THE METROPOLITAN AREA FROM 1975 - 1982

1975	1976	1977	1978	1979	1980	1981	1982
$35,000	$38,000	$43,000	$51,000	$59,000	$63,000	$71,000	$79,000

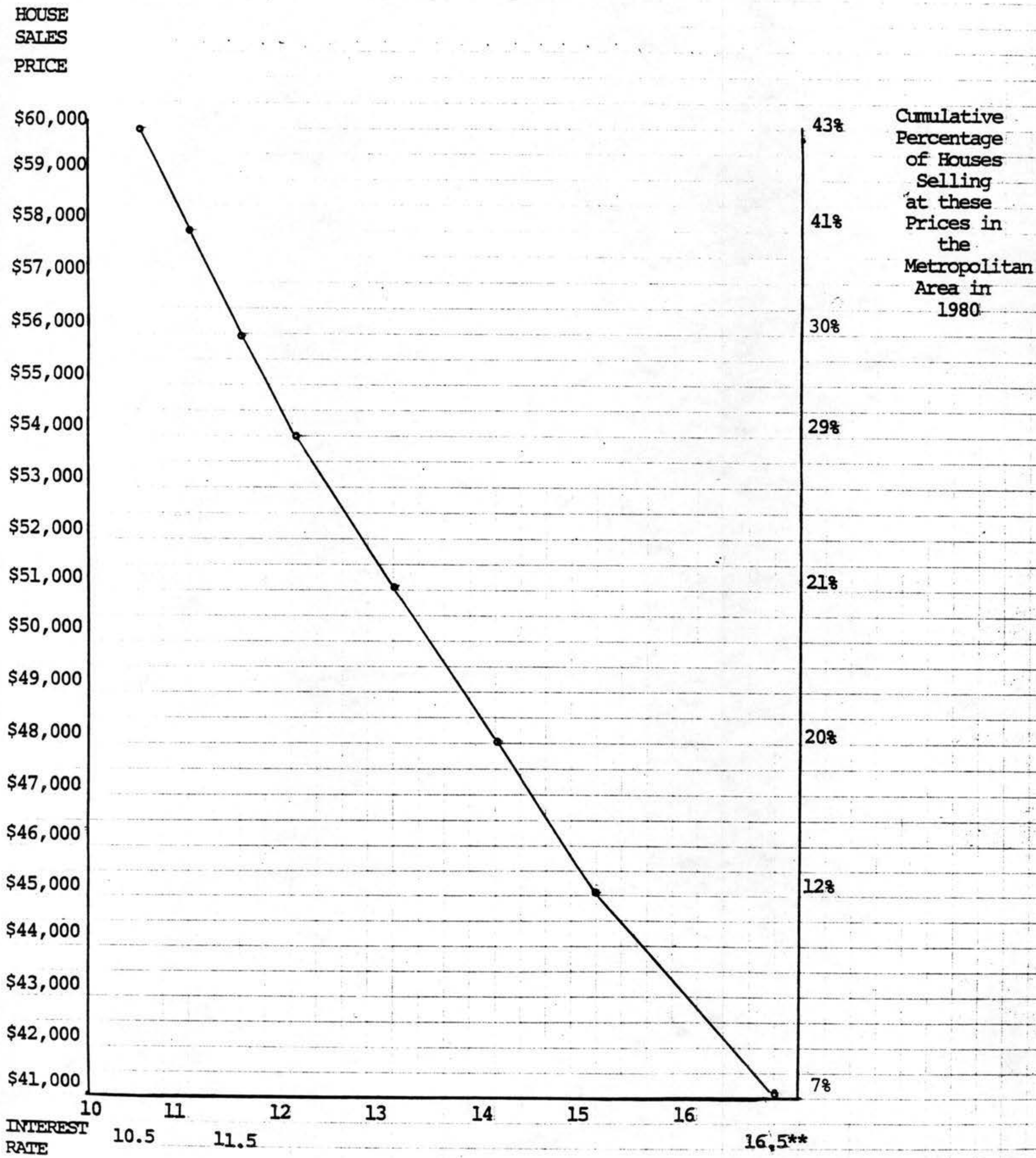
MEDIAN HOUSE PRICES IN THE NONMETROPOLITAN AREA FROM 1975 - 1982

1975	1976	1977	1978	1979	1980	1981	1982
$24,000	$28,000	$33,000	$37,000	$40,000	$41,000	$47,000	$53,000

NOTE: House prices for the years 1975 to 1980 are based on Certificates of Real Estate value filed with the Department of Revenue. House prices for the years 1981 to 1982 were projected using actual sales price data from 1980. A 12% rate of inflation was assumed. New distributions of sales prices were generated and then the median prices were calculated.

TABLE 4

The maximum house price a household with a $26,000 annual income could afford at various mortgage loan interest rates*



*28% monthly income for principal, interest, taxes and insurance.
**FHA/VA rates as of 8/17/81.

TABLE 5

Annual income required to purchase a $60,000 house at various interest rates*