

STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

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Proposed Amendment to and Adoption of Rules
Governing Eligibility for the Home Ownership
Assistance Fund Without a Public Hearing.

STATEMENT OF

NEED AND REASONABLENESS

12 MCAR § 3.133.

Minnesota Statutes, Section 462A.21, subdivision 8, directs the Minnesota Housing Finance Agency (Agency) to establish a home ownership 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.

The present annual adjusted income limits and initial maximum monthly assistance were established in 1978. The proposed adjusted income limits and initial maximum monthly assistance for eligible recipients whose qualifying property is in the metropolitan area as defined in Minnesota Statutes, Section 473.121, subdivision 2 are shown in Exhibit 1. The proposed adjusted income limits and initial maximum monthly assistance for eligible recipients whose qualifying property is in the nonmetropolitan areas is shown in Exhibit 2.

EXHIBIT 1

METROPOLITAN AREA

INITIAL MAXIMUM MONTHLY ASSISTANCE

MORTGAGE
INTEREST
RATE

		\$100	\$80	\$60	\$40	\$20
0- 10.59%	ADJUSTED HOUSEHOLD INCOME	\$0-\$15,000	\$15,001-\$16,000	\$16,001-\$17,000	\$17,001-\$18,000	\$18,001-\$19,000
10.60- 11.09%	ADJUSTED HOUSEHOLD INCOME	\$0-\$16,000	\$16,001-\$17,000	\$17,001-\$18,000	\$18,001-\$19,000	\$19,001-\$20,000
11.10- 11.59%	ADJUSTED HOUSEHOLD INCOME	\$0-\$17,000	\$17,001-\$18,000	\$18,001-\$19,000	\$19,001-\$20,000	\$20,001-\$21,000
11.60- 12.00%	ADJUSTED HOUSEHOLD INCOME	\$0-\$18,000	\$18,001-\$19,000	\$19,001-\$20,000	\$20,001-\$21,000	\$21,001-\$22,000

EXHIBIT 2

NONMETROPOLITAN AREA

INITIAL MAXIMUM MONTHLY ASSISTANCE

MORTGAGE
INTEREST
RATE

		\$100	\$80	\$60	\$40	\$20
0- 10.59%	ADJUSTED HOUSEHOLD INCOME	\$0-\$10,000	\$10,001-\$11,000	\$11,001-\$12,000	\$12,001-\$13,000	\$13,001-\$14,000
10.60- 11.09%	ADJUSTED HOUSEHOLD INCOME	\$0-\$11,000	\$11,001-\$12,000	\$12,001-\$13,000	\$13,001-\$14,000	\$14,001-\$15,000
11.10- 11.59%	ADJUSTED HOUSEHOLD INCOME	\$0-\$12,000	\$12,001-\$13,000	\$13,001-\$14,000	\$14,001-\$15,000	\$15,001-\$16,000
11.60- 12.00%	ADJUSTED HOUSEHOLD INCOME	\$0-\$13,000	\$13,001-\$14,000	\$14,001-\$15,000	\$15,001-\$16,000	\$16,001-\$17,000

It is 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.

The Agency took 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 following analyses.

Since 1978 house prices and interest rates have risen dramatically. Figure 1 shows the estimated change in median house price from 1978 to 1981. This estimate is based on actual sales price data for 1978, 1979 and 1980 collected by the Minnesota Department of Revenue. A distribution of sales prices for 1981 was generated using a 12% rate of inflation and then a median sales price was calculated.

FIGURE 1

	<u>1978</u>	<u>1981</u>	<u>PERCENT CHANGE</u>
METROPOLITAN AREA	\$51,000	\$71,000	40%
NON METROPOLITAN AREA	\$37,000	\$47,000	27%

In 1978 the average interest rate on all home mortgages (FHA, VA and Conventional) was 9.56%. By July of 1981 it was 14.36%, a 50% increase.

In 1978 the Agency made 6.75% mortgage loans. The Agency in 1981 will most likely impose a 12% interest rate on its mortgage loans. In 1978 a household in the metropolitan area with a 6.75% Agency mortgage, HAF monthly assistance of \$75 and a gross annual income of \$13,500 could have afforded a \$51,000 home (then the median priced home in the metropolitan area). In 1981 that same household with a 12% Agency mortgage would need \$100 in monthly assistance and a gross household income of \$20,000 to afford the same \$51,000 house (by 1981 only an estimated 20% of all sales in the metropolitan area will fall below \$51,000).

Table 3 shows house prices for 1975 through 1980 and projected for 1981 to 1982. House prices have risen substantially since 1975 and will 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 analysis of the data available to the Agency has led to a separate income limit for the metropolitan area and the nonmetropolitan areas of the State. The Agency has established a dual income limit because the data show a variation in incomes and house prices sufficient that any single limit would either be too high in the nonmetropolitan areas or too low in the metropolitan area.

The proposed income limits and amounts of monthly assistance will allow a household to purchase a \$50,000 house in the metropolitan area and a \$40,000 house in nonmetropolitan areas of the State.

TABLE 1

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

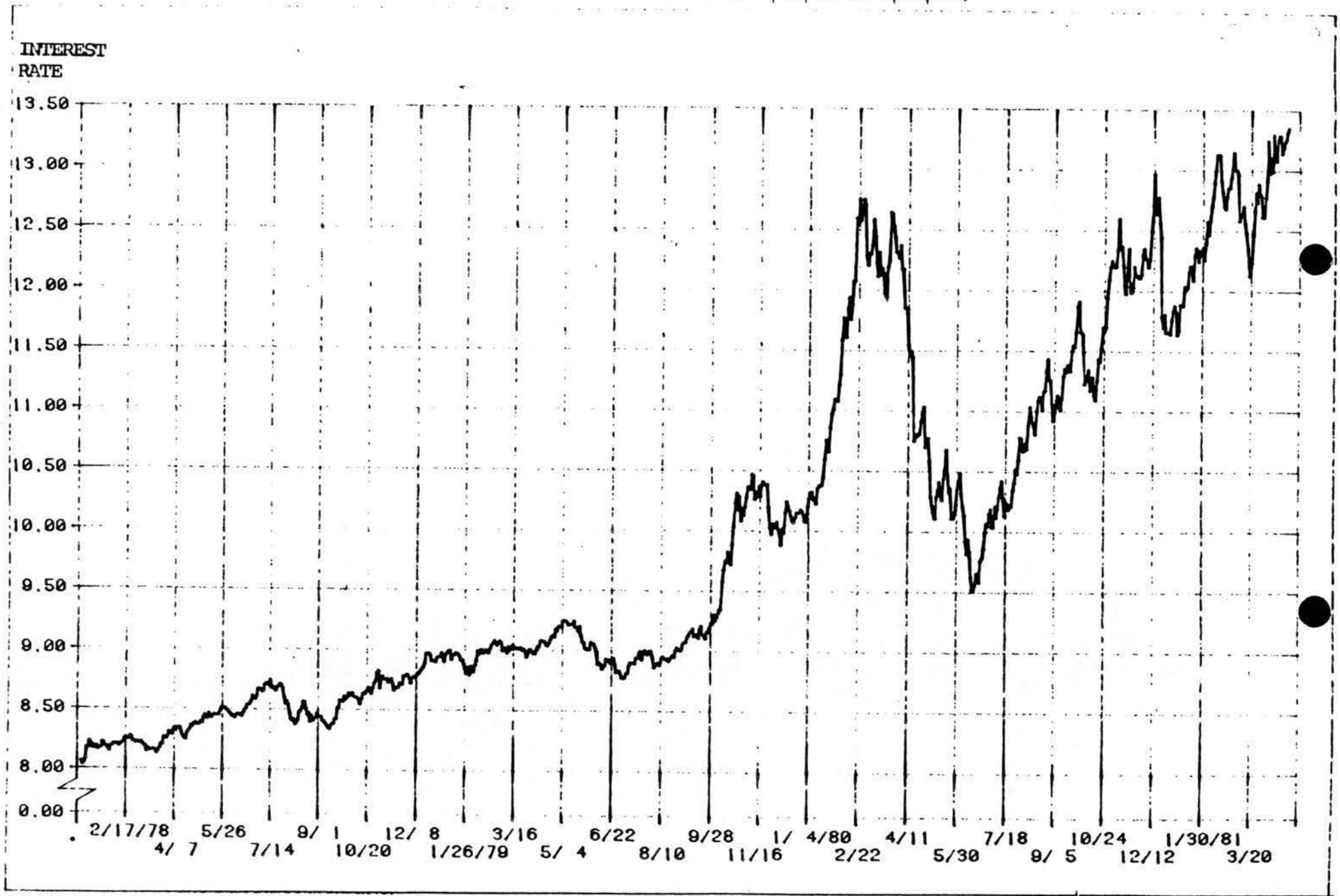
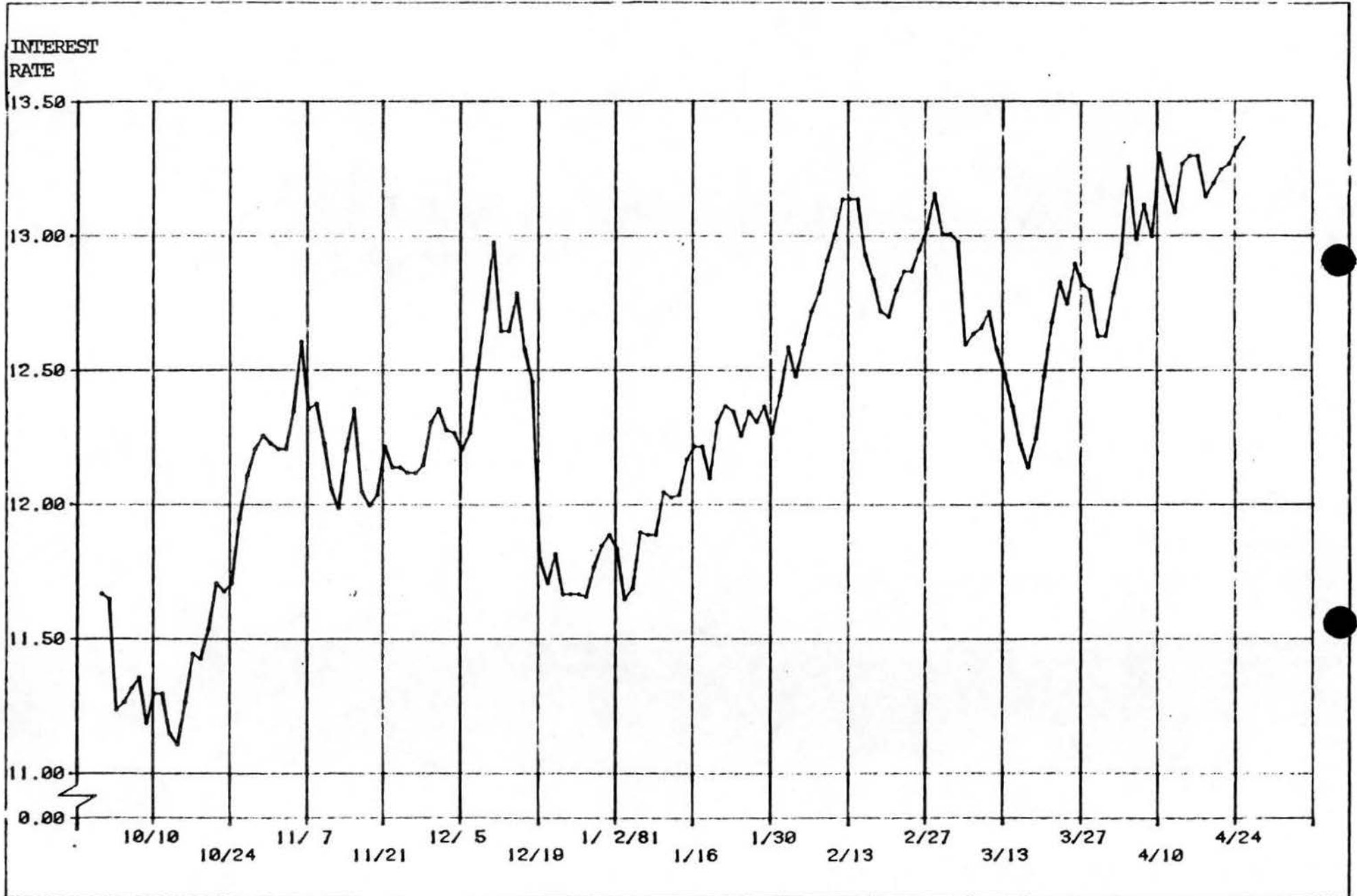


TABLE 2

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



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 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.