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State of Minnesota
Minnesota Housing Finance Agency

In the Matter of the Proposed Adoption of Rules of the Minnesota Housing Finance Agency Relating to the Income Limits for the Home Improvement Loan Program

Statement of Need and Reasonableness

12 MCAR S 3.002(O)(3)

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 accomplished in two Agency rules: (1) 12 MCAR S 3.002(O) establishes maximum limits for adjusted income; and (2) 12 MCAR S 3.002(N) determines adjusted income pursuant to a formula established in that rule. The adjusted income limit for the Home Improvement Loan Program is currently $18,000 which was established in 1981.

The proposed rule increases the adjusted income limits for the Agency Home Improvement Loan Program to $24,000. It is necessary to increase the income limits for the Home Improvement Loan Program (Program) because of increases in incomes due to inflation, and because these increases in income would reduce the pool of eligible applicants for the Program.

Minnesota Statutes Section 462A.03, Subdivision 10, specifies four criteria for the determination of persons and families of low and moderate income. They are:

(a) the amount of total income such persons and families have available for housing needs;

(b) the size of the family;

(c) the cost and condition of housing facilities available; and

(d) the eligibility of such persons and families to compete successfully in the normal housing market and to pay the amount at which private enterprise is providing sanitary, safe and decent housing.

These criteria will be reviewed in more detail below.

The Agency program provides loans of up to $15,000 for home improvements for eligible persons and families. The interest rate varies from 3 percent to 14.5 percent depending upon income. Since the program began in 1975, the Agency has made 33,578 loans totalling $171,089,939. The program is financed with a combination of tax exempt revenue bonds and State appropriations. Bonds have been sold equaling $191,505,000 and appropriations have totalled $33,210,000.

The first criteria listed in Section 462A.03, Subdivision 10, is "The amount of total income such persons and families have available for housing needs." Because this program serves low and moderate income persons and families, it is difficult to separate out those resources available for housing needs. For low and moderate income persons and families competition exists among various needs for the use of each limited dollar. In making this determination, the Agency has defined low and moderate income persons and families as those with incomes at or below the median income. The median income is the income that divides the income distribution in half. The Agency has made the determination that persons and families with incomes above the median have the necessary resources to meet their housing needs.

In determining the income available for persons and families of low and moderate income, it is necessary to examine actual data generated by the 1980 Census of Population and Housing. According to this data, the median income for all families in Minnesota was $21,217 in 1979. The Agency has projected that incomes will rise approximately 9 percent a year from 1979 to 1982 (December of 1982) or a total of 27 percent. Incomes have lagged general inflation historically. The expected rise in inflation over the same period will be approximately 30 percent (13% in 1980, 11% in 1981 and projected 6% in 1982). Thus, projected median family income at the end of 1982 will be approximately $26,946. The projected 1982 median income of $26,946 under the Agency's current formula for adjusting incomes would yield the following adjusted income for a "typical borrower":*

$26,946
\- 750 (deduction - adult)
\- 750 (deduction - adult)
\- 750 (second income deduction)
\- 500 (deduction - child)

$24,196 - Total

Thus, the Agency's proposed adjusted income limit of $24,000 would allow persons and families at or below the median income to participate in the Agency's program. The Agency has determined that the adjusted income limit of $24,000 is reasonable.

The second criterion listed in the statutory definition 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 incomes under 12 MCAR S 3.002(N) which is not the subject of this rule amendment. The Agency did, however, take the income adjustments in 12 MCAR S 3.002(N) into account in the analysis leading to a determination that the rule established by this rule amendment reflected family size. Under 12 MCAR S 3.002(N) such households receive a $750 deduction from gross income for each adult, a $500 deduction for each child and a $750 deduction for the second income.

The third factor specified in the statute is the cost and condition of housing facilities available. This criterion is primarily applicable to Agency programs which finance the purchase of dwelling units.

The fourth factor is, "the eligibility of the persons and families to compete successfully in the normal housing market and to pay the amount at which private enterprise is providing sanitary, decent and safe housing." The Agency's program will serve low and moderate income persons and families who could not afford the current interest rates of 19 percent which are being charged for conventional home improvement loans.

* Approximately 70 percent of previous program recipients were married with one child and both parents worked.