

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 Rehabilitation  
Loan Program

Statement of Need  
and Reasonableness

12 MCAR S 3.002 (0) (3)

Minnesota Statutes, S 462A.03, Subd. 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(0) 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 Rehabilitation Loan Program (Program) is currently \$6,000 which was established in 1980.

The proposed rule increases the adjusted income limits for the program to \$7,000. It is necessary to increase the income limits for the Program because of increases in income due to inflation and because these increases in income reduce the pool of eligible applicants for the Program.

Minnesota Statutes S 462A.03, Subd. 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 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 amounts at which private enterprise is providing sanitary, decent and safe housing.

These criteria will be reviewed in more detail below.

The Agency's program provides deferred and flexible loans of up to \$7,500 for housing rehabilitation. Deferred loans are loans without periodic interest or periodic payments, which must be repaid in full in the event the improved property is sold, transferred, or otherwise conveyed or ceases to be the borrower's principal place of residence within the 10 years of the date of the loan. A flexible loan is a loan with 3% interest and small monthly payments. Any outstanding balance is due in full when the improved property is sold, transferred, or otherwise conveyed or ceases to be the borrower's principal place of residence. The loans are made with appropriations from the Minnesota Legislature. This program replaced the Home Improve-

The first criterion listed in Section 462A.03, is "The amount of total income such persons and families available for housing needs." This program serves very low income persons and families which makes it difficult to separate out those resources available for housing needs. For low income persons and families basic needs such as food and shelter compete for each limited dollar.

Approximately 55 to 65% of the Program's applicants are elderly homeowners. The Agency estimates that in 1983 the median income of an elderly homeowner in Minnesota will be approximately \$12,000. The estimate is based upon an analysis of the 1980 Property Tax Refunds. The Agency's proposed limit of \$7,000 is slightly over half of the projected median (a median is the value that divides a distribution in half). The Agency would thus continue a policy of allowing persons and families in the first quartile of the income distribution to participate in this program. The Agency has made the determination that persons and families with incomes above \$7,000 have the necessary resources to meet their housing needs.

The Agency is increasing its income limit by the percentage increase in Social Security Benefits over the last two years. This increase was approximately 18% over the past two years. Thus, increasing the Program's income limit from \$6,000 to \$7,000 would continue a policy of allowing households at or below the first quartile of the income distribution of homeowners to participate in the Agency's program. The Agency has determined that the adjusted income limit of \$7,000 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 third criterion 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 criterion is "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." The Agency's program will serve very low income persons and families who clearly cannot afford market rate home improvement loans of 16%, the present FHA rate for improvement loans.

## MINNESOTA HOUSING FINANCE AGENCY

In the Matter of the  
Proposed Adoption of  
Rules of the Minnesota  
Housing Finance Agency  
Relating to the Definition  
of Adjusted Income and  
the Effective Date of  
Implementation

Statement of Need  
and Reasonableness

12 MCAR § 3.002 (N)

Minnesota Statutes, S 462A.03, Subd. 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 rules: (1) 12 MCAR § 3.002 (O) which establishes maximum adjusted income; and (2) 12 MCAR § 3.002 (N) which determines adjusted income pursuant to a formula established in that rule. The Agency proposes to make technical changes in that formula. The current formula for adjusting incomes was established in 1977. The Agency proposes to make changes that will make the administration of the Agency's programs easier. These changes are technical and reflect the criteria that the Agency is to follow in determining low and moderate income.

Minnesota Statutes S 462A.03, Subd. 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 amounts at which private enterprise is providing sanitary, decent and safe housing.

12 MCAR 3.002 (N) (1) is stricken to reflect the proposed deletion of a deduction of the income of any adult resident under the age of 18. The deletion of this deduction is reasonable because, in the Agency's experience, these sources of income are rarely included in gross income, because they are considered inconsequential by the applying household. The deduction is therefore confusing, and is frequently misused.

12 MCAR 3.002 (N) (2) is stricken to reflect the proposed deletion of a deduction for non-recurring income. The deletion of this deduction is reasonable because, in implementing this rule, the Agency uses the gross household income projected one year from the date of application. It is the nature of non-recurring income (most frequently gifts) that it is not generally anticipated. Non-recurring income is therefore rarely included

in gross income and need not be accommodated in a deduction.

12 MCAR 3.002 (N) (2) also includes a deletion of a deduction of sums received for foster child care. The deletion of this deduction is reasonable because foster children are considered residents of the household and are therefore accommodated by the standard deduction.

12 MCAR 3.002 (N) (3) pertaining to extraordinary medical expenses is renumbered as 12 MCAR 3.002 (N) (1).

12 MCAR 3.002 (N) (4) is stricken to reflect a proposed deletion of the deduction of up to \$750 of a secondary income recipient. The deletion of this deduction is reasonable because a large majority of the applying households with two adults have two income sources. This was not the case in 1977 when the current rule was adopted to allow for inequities between one income and two income households. Two income households are now the majority and it is no longer necessary to provide this deduction.

12 MCAR 3.002 (N) (5) currently provides a \$750 deduction for each of up to two adults and a \$500 deduction for each additional resident of the household. The Agency proposes in the renumbered 12 MCAR 3.002 (N) (1) to change these deductions so that the deduction for each resident will be \$1000. The proposal to make all deductions the same is necessary to simplify the process of calculating adjusted income. Income calculations are generally made by entities, such as lending institutions, acting on behalf of the Agency. Because errors in calculation can affect an applicants' eligibility for a program and because the calculation is actually done by many entities, it is reasonable for the Agency to make the calculation as simple as possible, while complying with the mandate of the statute to take into account the size of the family in calculating income.

The increase in the amount of the deduction to \$1000 is proposed to reflect increased living expenses since the rule was adopted in 1977.

12 MCAR 3.002 (N) (6) is stricken to reflect a proposed deletion of up to \$750 of child care expenses. This deletion is reasonable because the proposed increase in the per resident standard deduction to \$1000 is sufficient to accommodate child care expenses.

12 MCAR § 3.0021

This proposed new rule adopts a schedule of effective dates for the revised 12 MCAR § 3.002 (N). Because 12 MCAR § 3.002 (N) affects all programs administered by the Agency, it is necessary to provide a schedule by which each program can adequately implement the change. The commencement of a new funding cycle for each program requires the revision of program forms, procedural manuals and brochures, all of which contain information about the adjusted gross income calculation. It is therefore reasonable to provide for an effective date for this rule at a time at or near the projected starting date of the next funding cycle for each program.

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 Amount  
of Loan and Grant and  
Correcting a Previous  
Printing Error.

Statement of Need  
and Reasonableness

12 MCAR § 3.064

12 MCAR § 3.061, two types of loans governed by this Chapter are defined. "Flexible Loans" are loans made with interest and periodic payments. "Deferred Loans" are loans made without interest or periodic payments. In 12 MCAR § 3.064, the criteria are set forth for determining which of these two types of loans a recipient is eligible to receive. This proposed amendment revises these criteria. It provides that all recipients with incomes of \$6,000 or less are eligible to receive Deferred Loans without consideration of their financial ability to repay a loan.

This revision is necessary because the Agency has found that the generally accepted methods of calculating the ability to repay a loan with periodic payments are not applicable to very low income individuals. Because these methods use a percentage of income available for debt service as a major criteria, they are inapplicable to very low income individuals, because their fixed living expenses comprise a large percentage of their annual incomes. Therefore, the Agency's experience in administering the program using the existing rule is that only a small percentage (9%) of all loan applicants are eligible for Flexible Loans. Because the process of determining ability to pay is both costly and time-consuming, due to the additional documentation required, the Agency finds it unreasonable to perform this calculation when the result is that very few individuals are eligible for Flexible Loans. It is therefore reasonable for the Agency to extend eligibility for Deferred Loans to all recipients with incomes of \$6,000 or less without the requirement that a calculation of the ability to repay a loan be made.

This amendment retains the requirement for a calculation of ability to repay a loan for recipients with incomes between \$6,000 and \$7,000. The Agency finds it necessary to provide Flexible Loans to some recipients because the periodic repayments of Flexible Loans enable the Agency to provide loans to additional recipients and thereby insure the continuation of the program. It is reasonable to perform an affordability calculation with respect to the group of potential applicants with the highest income, because it is with this group that the probability of loan repayment capability is the greatest.

12 MCAR § 3.066 (E)

This amendment corrects an error by replacing the word "installation" with the word "insulation."