STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

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

Statement of Need
and Reasonableness

12 MCAR § 3.038

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. The determination of defining families as low and moderate is established in 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 12 MCAR § 3.038 and Exhibit 12 MCAR 3.038-1 establishes income limits for the Agency's Rollover Housing Loan Program necessitated by increased interest rates for its bonds, and rising costs of existing housing. The rule also proposes a series 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 § 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 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 Exhibit 12 MCAR 3.038-1. 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 Rollover Housing Loan Program.

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 existing housing has risen substantially in recent years, and should continue to rise in the immediate future. The proposed set of income limits for the Rollover Housing Loan Program will allow a household to purchase a \$70,000 - \$75,000 existing home in the State of Minnesota. In light of current market conditions affecting the cost of existing housing, the \$70,000 - \$75,000 purchase price is 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 FHA rates of 13.0% and, using industry underwriting standards, a family would be required to have an adjusted income of at least \$35,000 to afford a \$70,000 - \$75,000 house.

The Agency, through the Rollover Housing Loan Program, 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.