

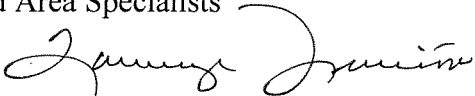


United States Department of Agriculture
Rural Development

TO: State Directors
Rural Development

NOV 30 2011

ATTN: Rural Housing Program Directors,
Area Directors and Area Specialists

FROM: Tammye Treviño 
Administrator
Housing and Community Facilities Programs

SUBJECT: Modest Housing Determinations

PURPOSE/INTENDED OUTCOME:

The purpose of this Unnumbered Letter is to clarify Rural Development's (RD) definition of modest housing and to provide additional guidance on the modest housing determination.

BACKGROUND:

Agency regulations define modest housing as "a property that is considered modest for the area, with a market value that does not exceed the applicable area loan limit as established by RHS in accordance with §3550.63. In addition, the property must not be designed for income producing activities nor have an in-ground swimming pool." 7 CFR 3550.10. RD derives its area loan limits from the nationally recognized Marshall and Swift residential cost analysis of the expense to build a new modest home in each county plus the cost of a developed lot.

As you have seen and heard, the market value of much of the nation's housing stock has fallen along with housing prices in the last several years. As a result, some applicants are entering into purchase agreements for homes that appear to be above modest but have market values within the applicable area loan limit.

EXPIRATION DATE:

November 30, 2012

FILING INSTRUCTIONS:

Housing Programs

1400 Independence Ave, S.W. · Washington DC 20250-0700
Web: <http://www.rurdev.usda.gov>

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This can be problematic because larger homes may jeopardize a borrower's success; larger homes have higher costs (utilities, taxes, insurance, maintenance, etc.).

IMPLEMENTATION RESPONSIBILITIES:

Due to the above, we believe the modest housing determination should include a standardized square footage consideration. We have determined that the most standardized square footage data available is the biennial American Housing Survey (AHS). Below is the average size of single family homes by regions as listed in the 2009 survey; future survey results will be provided as published. This regional data will serve as a general guideline and is not a firm limitation. If a home's square footage exceeds the reported AHS average square footage, the Area Office will need to determine if the home is typical for the area based on historical Agency-lending activity in that area and/or if the applicant has special needs due to an exceptionally large household or a household member with a disability. If the Area Office believes the home is modest, an exception by the State Director will be sought. The exception request must take into consideration the costs of utilities and maintenance. The applicant will be requested to obtain actual utility costs for the last 12 months. In addition, the request must address the age and condition of the home and the applicant's ability to pay the higher costs (utilities, taxes, insurance, maintenance, etc.) associated with the larger home. Otherwise, the home will be considered above modest based on size.

Size of Unit -- Owner Occupied Units (single detached and mobile homes).

| Northeast | Midwest | South | West |
|---------------|---------------|---------------|---------------|
| 2,000 sq. ft. | 1,800 sq. ft. | 1,800 sq. ft. | 1,800 sq. ft. |

States contained in each region are as follows:

Northeast - Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, Pennsylvania and New Jersey.

Midwest - Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, Kansas, Nebraska, North Dakota and South Dakota.

South - Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, Arkansas, Louisiana, Oklahoma, and Texas.

West - Montana, Wyoming, Colorado, New Mexico, Arizona, Utah, Idaho, Alaska, Washington, Oregon, Nevada, California and Hawaii.

While some State Offices expressed concerns regarding various amenities (premium materials, unique features, etc.), we believe that amenity biases are a consumer issue. Amenities desired by consumers may cost more but they tend to last longer. The Agency will not dictate what amenities are or are not allowed (other than those expressed in the 7 CFR part 3550).

States Offices may not add any additional considerations to the modest housing determination.

If you have any questions, please contact Chris Ketner at (202) 690-1530, or via email at Christopher.Ketner@wdc.usda.gov

Sent by Electronic Mail on 11/30/11 at 6:55 am by Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.