

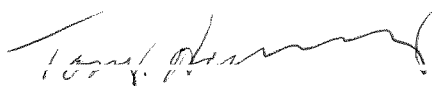


United States Department of Agriculture
Rural Development
Committed to the Future of Rural Communities

TO: State Directors
Rural Development

MAR 03 2015

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

FROM: Tony Hernandez 
Administrator
Housing and Community Facilities Programs

SUBJECT: Modest Housing Determinations for Single Family Housing Direct
Section 502 and 504 Programs

PURPOSE:

The purpose of this memorandum is to reissue guidance that clarifies Rural Development's (RD) definition of modest housing and to provide additional instructions for making modest housing determinations. With the issuance of the 2013 American Housing Survey (AHS), changes from the previous memorandum on this subject are being made to account for reductions in the size of owner-occupied housing units in the Northeast.

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 RD in accordance with §3550.63. 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 market value of an improved site. In addition, modest housing must not be designed for income producing activities nor have an in-ground swimming pool.

EXPIRATION DATE:
January 31, 2016

FILING INSTRUCTIONS:
Housing Programs

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Although the nation's housing market appears to be recovering, the strength of that recovery varies greatly across the country. While some areas are experiencing a rapid increase in home prices, other areas have not seen the same degree of price appreciation.

Given this, some applicants may enter into purchase agreements for homes that appear to be above modest but have market values within the applicable area loan limit. 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 AHS. While past guidance on this matter considered the size of an owner occupied unit on a regional basis, the median size of single family homes nationwide will be used this time around given the comparable results across the regions in the 2013 survey. Future guidance on this matter may revert back to the regional breakdown.

Effective 30 days from the date of this memorandum, the square footage consideration nationwide will be 1,800.

The square footage of 1,800 serves as a general guideline and is not a firm limitation. If a home's square footage exceeds this threshold, the Area Office will need to determine if the home is typical for the 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 (using the inspection report, appraisal report, etc.) 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.

In the Northeast (which includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, Pennsylvania and New Jersey), valid purchase/contract agreements received prior to the effective date of the nationwide square footage consideration are subject to the prior square footage consideration of 2,000.

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 March 3, 2015 at 8:10 a.m. by Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.