LISC

Helping neighbors build communities

October 30, 2018

Branch Chief
Regulations and Paperwork Management Branch
U.S. Department of Agriculture
STOP 0742
1400 Independence Avenue SW
Washington, DC 204120250-0742

RE: RIN 0575-AD13, Proposed Amendments to USDA Rural Housing Service Single-Family Housing Direct and Guaranteed Loan Programs

To Whom It May Concern:

The Local Initiatives Support Corporation (LISC) appreciates the opportunity to provide comments on proposed amendments to the U.S. Department of Agriculture's (USDA) Rural Housing Service (RHS) single-family housing loan and grant program regulations.

Established in 1979, LISC is a national nonprofit housing and community development organization that is dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; as well as technical and management assistance. Our organization has a nationwide footprint, with local offices in 33 cities. LISC invests approximately $1.4 billion each year in these communities and our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy communities.

In 1995, LISC launched Rural LISC, a national program created to expand LISC's reach beyond urban areas to include rural communities. Today, Rural LISC partners with 86 rural community based organizations, including five financial intermediaries, helping them identify challenges and opportunities, and delivering the most appropriate support to meet local needs. Together, Rural LISC is transforming communities in more than 2,000 counties across 44 states.

Rural LISC's involvement with USDA's single-family housing loan and grant programs has focused mostly on the Section 502 Single-Family Housing Direct Home Loan program, Section 523 Self-Help Technical Assistance program, and USDA's single-family home rehabilitation and repair programs. Rural LISC works with Section 523 self-help housing organizations throughout rural America and the Section 502 Single-Family Housing Direct Home Loan program is a valuable source of permanent mortgage financing for organized mutual self-help housing participants. In fact, most self-help housing beneficiaries utilize USDA's Single-Family Direct Home Loan program for this purpose. The program also supports mortgages for low- and moderate-income families not using the organized self-help housing model and is an essential resource for supporting affordable homeownership options for low-income individuals in rural communities. It also helps increase asset building opportunities for low-income persons who are unable to qualify for conventional home mortgage financing.

Specific Comments

1. Revising the definition of very low-, low-, and moderate-income to allow for two-tier income limit structure (also known as income banding) within the single-family housing direct loan and grant programs.

USDA notes in the proposed regulation that the purpose of modifying income limits is to address the "impact of varying minimum wages among states and territories and the observed disconnect between minimum wages and the low-income median income in many areas." USDA states that in 16 states and territories, the current income limits exclude two person households each making the prevailing minimum wage from accessing the Section 502 Single-Family Housing Direct Loan program. RHS has used existing authority to operate a pilot in 23 states to test an alternative methodology. This pilot uses a two-tier income limit structure for single-family housing programs which bands together 1-4 person households at the 4-person income level set by the U.S. Department of Housing and Urban Development (HUD) and 5-8 person household at the 8-person income level established by HUD. The Agency states that the pilot program has been successful in serving more borrowers and providing more homeownership opportunities.

LISC has seen the benefits of income banding with self-help organizations that package Section 502 Direct loans although encourages USDA to provide data to substantiate the national results of the pilot. Data is needed since this change will allow limited subsidy to go to higher income households who often have more financing options, and will limit the program's ability to serve lower income borrowers. USDA's proposed change would raise the median household income limit for a two-person household from $42,800 to $53,500, which would expand the number of income eligible households. USDA justifies this change by stating that the pilot allowed more borrowers to be served, although the Agency doesn't specify how many additional two-person minimum wage earner borrowers were served. In addition, half of the states in the income-banding pilot were also in the area loan limit pilot, which furthers limits the public's understanding of the pilot's efficacy. Lastly, USDA Section 502 Single-Family Housing Direct Home Loan program appropriations increased $200 million from fiscal year 2016 to 2018, which has also resulted in an increase in loan obligations. Without data from USDA, it's not possible to discern the impact of the income-banding pilot and its ability to serve more minimum wage households.

2. Revising § 3550.54(d) to remove the requirement that net family assets be included in the calculation of repayment income.

USDA is proposing to make changes to how it administers net family assets, including removing it from the calculation of repayment income and revising the definition. Net family assets are currently considered for determining annual income, down payment purposes, and repayment income. USDA proposes to "exclude net family assets from repayment calculations because repayment income focuses on the income of those who sign the promissory note, whereas net family assets considers the finances of other family members." LISC supports this removal since it is not necessary to include other family members for determining loan repayment purposes and will ultimately help streamline the approval process.

USDA also proposes to revise the regulatory definition of net family assets so "that the list of net family assets considered for annual income and down payment purposes would exclude amounts in voluntary retirement accounts such as individual retirement accounts, 401(k) plans, Keogh accounts, and the cash value of life assurance." In addition, USDA proposes to exclude tax advantaged college savings plans and health and medical savings accounts, amongst other similar changes. USDA notes that these changes will help protect these assets for their intended purposes. LISC supports these changes since retirement, health, and educational accounts should only be utilized for their stated purposes and be available when families need to access them.

The Agency also proposes to change how USDA treats the value of business or household assets disposed of for less than fair market value during the two years preceding an applicant's income determination. USDA states it isn't meaningful to consider assets disposed of in the past. LISC does not support this change since the existing policy helps protect the Agency from potential fraud. Applicants selling or transferring business or household assets for less than market value may be doing so to reduce their required home purchase contribution or to qualify for payment subsidy assistance. Retaining the existing policy helps reduce risk to USDA.

3. Revising the methodology used to determine the area loan limits in § 3550.63(a) to use a percentage(s), as determined by the Agency, of the applicable local HUD section 203(b) limit.

USDA is proposing to set area loan limits as a percentage of the Federal Housing Administration's (FHA) Section 203(b) limits. The specific percentage will be based on housing market conditions and trends, and the Agency will publish the percentage in the applicable program handbooks. USDA states that the purpose of revising the area loan limits is to streamline the process, improve the reliability of the data used for this purpose, reduce costs, and make new construction more feasible. The Agency has been operating a pilot program where loan limits have been set at 80 percent of FHA's Section 203(b) limit. USDA notes that the pilot states have seen larger loan amount increases, with an increase of over 13 percent from fiscal years 2015 to 2017 compared to over five percent for non-pilot states. USDA believes the higher percentages are acceptable since they allow for more new construction, which can contribute to increased economic development activities, and since borrower qualification amounts continue to be limited to repayment ability, project eligibility standards, and other factors.

LISC does not support this change since FHA 203(b) loan limits are based on housing costs only in high costs areas. The 203(b) low cost loan limits reference the Government Sponsored Entities national conforming limits, which have no relationship to local housing costs like USDA's current process. USDA normally bases area loan limits on an estimate of the cost to build a modest home plus the market value of an improved lot based on recent sales data. While there may be a need to change the area loan limit methodology, this proposed change is not supported by data and will lead to arbitrarily larger loan sizes, leading to less total loans for low-income borrowers.

We would be happy to provide additional information on our comments. Please contact Suzanne Anarde (sanarde@lisc.org) or Mark Kudlowitz (mkudlowitz@lisc.org) with any questions.

Sincerely,

Matt Josephs
Senior Vice President for Policy