March 6, 2017

TO: State Directors
Rural Development

ATTENTION: Single Family Housing Program Directors

FROM: Richard A. Davis /s/ ***Richard A. Davis***
Acting Administrator
Rural Housing Service

SUBJECT: Two-Tiered Income Limit Pilot
Single Family Housing Programs

PURPOSE:

This Unnumbered Letter (UL) is reissued to continue the two-tiered income limit pilot for the Single Family Housing (SFH) programs that began in Fiscal Year (FY) 2016.

BACKGROUND:

The U.S. Depa1iment of Housing and Urban Development (HUD) releases their 1-8 person income limits each year. In turn, these income limits are used by the Agency's single and multi family housing programs. The limits are generally adopted as-is with the exception of the Agency's hold harmless clause and the moderate income banding permitted in the SFH guaranteed loan program.

The disparity and incompatibility of using an unmodified version of HUD's income limits for the Agency's SFH programs, particularly in the direct programs, is made clear when considering that 16 states and territories have a two person low-income limit that is below the income received by households with two minimum wage earners. In other words, neatly a third of the states have income limits that disqualify households from the Section 502 direct program even though those households are making just enough to keep slightly above the poverty line.

EXPIRATION DATE:
March 31, 2018

FILING INSTRUCTIONS:
Housing Programs

To test a sound alternative to the existing process for establishing income limits that may lead to regulatory changes, the Agency initiated a pilot program that utilizes a two-tiered income limit structure. The pilot utilizes a two-tier income limit structure for all SFH programs which bands together 1-4 person households using the 4 person income level set by HUD, and 5-8 person households using the 8 person income level established by HUD. This banding applies to very low income, low income, moderate income, 38 year te1m, and adjusted median income.

IMPLEMENTATION RESPONSIBILITIES:

With the release of the updated FY 2017 income limits, two-tiered income limits will continue to be utilized in select states for all SFH programs. This is the second year of the pilot program and evaluation of this pilot continues. These limits will include a 5% increase for two areas in Puerto Rico (San German-Cabo Rojo and Puerto Rico non-metro).

The following pilot conditions apply:

- The 23 pilot states and territories are: **Arizona, Arkansas, California, Florida, Georgia,** Indiana, **Kentucky, Michigan, Mississippi, Missouri,** Nebraska, **New Mexico,** North Carolina, North Dakota, **Oregon,** Pennsylvania, **Puerto Rico, Tennessee,** Utah, **Washington,** Vermont, **West Virginia,** and the **Virgin Islands.** The 16 states and territories that are experiencing the minimum wage earner issue are noted in bold; the others were added to ensure reasonable representation among the regions.
- For Section 502 direct loans, the pilot will be limited to new loans that will close using Payment Assistance Method 2. If an existing borrower currently on Payment Assistance Method 1 qualifies for a subsequent loan during the pilot period, the subsequent loan will be based on Payment Assistance Method 2 and the original loan(s) will be conve1ed to Payment Assistance Method 2 as long as the resulting payment is reasonably affordable to the b01Tower. Affordability will be tested against repayment ratios which must be below the thresholds set in the regulation. Otherwise, Payment Assistance Method 1 for the new loan will be calculated manually since UniFi is unable to support income level data for both the traditional 1-8 person levels as well as the pilot two-tiered levels.

For questions pe1iaining to this UL, please contact Andria Hively, Finance and Loan Analyst in the Single Family Housing Direct Loan Division at (360) 753-7724.