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

February 23, 2016

TO: State Directors
Rural Development

ATTENTION: Program Directors
Single Family Housing

FROM: Tony Hernandez /s/ ***Cathy Glover*** for
Administrator
Housing and Community Facilities Programs

SUBJECT: Establishing the Fiscal Year 2016 Area Loan Limits for the Single Family Housing Direct Programs and the Continuation of the Pilot Program Using the Alternative Method

PURPOSE:

The purpose of this memorandum is to provide guidance on the Fiscal Year (FY) 2016 review of the area loan limits and to continue the pilot program that uses an alternative method to update the limits. **For both pilot and non-pilot states, updated area loan limits will be effective on May 4, 2016.**

BACKGROUND:

Since FY 2003, the area loan limits have been determined using one of the following two methods.

Option 1: The cost to construct a modest home as provided by a nationally recognized residential cost provider, plus the market value of an improved lot based on recent sales data.

Option 2: The State Housing Authority (SHA) limits as long as this limit is within ten percent of the cost data plus the market value of an improved lot.

EXPIRATION DATE:
February 28, 2017

FILING INSTUCTIONS:
Housing Programs

Regardless of the option used, the area loan limit may not exceed the applicable local Federal Housing Administration (FHA) Forward One-Family mortgage limit. The FHA mortgage limit is referred to as the HUD 203(b) limit in 7 CFR 3550.63 (a)(1), which outlines the requirements for this annual process.

IMPLEMENTATION RESPONSIBILITIES:

Beginning in FY 2015, a third method was implemented under a pilot program. The third method, which is subject to the pilot conditions outlined below, determines the area loan limits using a National Office defined percentage of the FHA Forward One-Family mortgage limits.

Pilot conditions:

- The pilot will run for two consecutive review cycles. In other words, the pilot will run for the annual reviews occurring in FY 2015 and FY 2016. This will allow the Agency sufficient time to gauge this alternative method from an execution standpoint (e.g. staff time saved and ease of implementation) and to determine if the alternative method substantially impacts the average loan amount.
- In FY 2015 and FY 2016, the National Office defined percentage is 80 percent of the FHA Forward One-Family mortgage limits.
- The pilot states are California, Colorado, Delaware, Florida, Hawaii, Iowa, Maryland, Minnesota, Mississippi, Missouri, Montana, Nevada, North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, West Virginia, Wisconsin, and Wyoming.
- Pilot states may request the use of a percentage higher than the National Office defined percentage for their entire state or for specific high cost counties if they believe the 80 percent results in an amount that is insufficient to acquire modest housing for that area. Requests to use a lower percentage will not be considered since that would be contrary to one of the pilot program's objective, which is to streamline the process.
- All other prior requirements pertaining to the site and the dwelling remain the same.

For the majority of the counties within the pilot states, the FY 2016 area loan limits will remain at the level established in FY 2015 (using 80 percent or a higher percentage authorized by National Headquarters). Unless a pilot state needs to request the use of a higher percentage, no action is needed on their part. On the effective date for the updated limits, the National Office will update the "Rural Development Single Family Housing – Area Loan Limits" map on the Agency's website. The updated map will serve as notice to the Agency staff and to the public (i.e. a state supplement is not required).

If a pilot state needs to request the use of a higher percentage, they must complete and email an Area Loan Limit Review Pilot - Form RD 2006-3* to the Single Family

Housing Direct Loan Division mailbox at RA.dcwashing2.RD-SFHDP by March 16, 2016. In the comments section, outline each county that warrants a higher percentage, what percentage should be used for each county, and provide an explanation for the requested percentage. The pilot state should also email relevant documentation that supports the request.

For the non-pilot states, which are Arkansas, Arizona, Alabama, Alaska, Connecticut, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Nebraska, New Jersey, New Mexico, New Hampshire, New York, Ohio, Rhode Island, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Texas, Vermont, Virgin Islands, Virginia, and the Western Pacific, **the process remains unchanged (i.e. you can consider Option 1 or Option 2 discussed in the background)**.

By March 16, 2016, non-pilot states must email their area loan limit package to RA.dcwashing2.RD-SFHDP. The package must include:

1. Form RD 2006-3, Instruction and Form Justification*.

2. The state supplement establishing which option was selected. The supplement must include the proposed area loan limit for each county. States may elect to keep their FY 2015 limits provided the limits were based on the residential cost figures plus the market value of an improved site and the limits still accurately reflect market conditions.

3. If changes to the area loan limits are being proposed:

   - The completed residential cost submission spreadsheet*.
   - A written explanation as to how the typical market value of an improved site was derived.
   - Verification of the SHA's non-targeted limits (if Option 2 was selected).
   - The completed Excel formatted UniFi upload spreadsheet* for updated limits only.

* Items marked with an asterisk will be emailed to the Program Directors shortly after issuance of this memorandum. Though the FY 2016 Marshall and Swift residential cost figures were emailed to the Program Directors on February 2, 2016, they will also be provided.

Questions regarding this memorandum may be directed to Chris Ketner, Finance and Loan Analyst, at 202-690-1530.