

February 4, 2014

TO: State Directors  
Rural Development

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

FROM: Tony Hernandez (Signed by Tony Hernandez)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Modest Housing Determinations

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Unnumbered Letter (UL) is to reissue guidance that clarifies Rural Development's (RD) definition of modest housing and to provide additional instructions for making modest housing determinations. There are no changes since the last issued UL on this subject.

**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, "Modest Housing" as defined in 7 CFR 3550.10, "must not be designed for income producing activities nor have an in-ground swimming pool." 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.

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.

EXPIRATION DATE:  
January 31, 2015

FILING INSTRUCTIONS:  
Housing Programs

Given this, some applicants may still 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 American Housing Survey (AHS). Below is the average size of single family homes by regions as listed in the 2011 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 (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.

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

	Nort heast	Midw est	South	West
	2,000	1,800	1,800	1,800
	sq. ft.	sq. ft.	sq. ft.	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](mailto:Christopher.Ketner@wdc.usda.gov).