

RD AN No. 4389 (1980-D)
September 15, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Community Development Managers

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Section 8 Homeownership Vouchers

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify how Section 8 Homeownership Vouchers may be used for qualifying applicants under the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4293 (1980-D), which expired on July 31, 2008. There are no changes from the prior document.

EXPIRATION DATE:
September 30, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

As part of the Quality Housing and Work Responsibility Act of 1998 (QHWRA), Congress sought to provide more low income families nationwide with an opportunity to become homeowners by creating a new homeownership option for families receiving Federal Section 8 tenant-based assistance. This program allows families receiving Section 8 voucher assistance to convert their Federal rental subsidy to a mortgage subsidy to buy their own home. The use of Section 8 Homeowner vouchers for the purpose of qualifying for a Rural Development guaranteed loan further enables low- and moderate-income families the opportunity to purchase a home. It provides broader opportunities for Section 8 participants who are facing increasingly unaffordable rents and a growing number of private landlords who are refusing to accept Section 8 rental assistance.

IMPLEMENTATION RESPONSIBILITIES:

This AN advises field offices and lenders of the manner in which they may treat SFHGLP applications when the homebuyer is to receive subsidies under the housing choice voucher homeownership option program from a Public Housing Agency (PHA).

Section 8 income is not included in Annual Income under RD Instruction 1980-D. This is consistent with the way Section 8 income is treated by the Single Family Housing Direct Loan Program (SFHDLP).

For repayment income purposes, the monthly subsidy may be treated in either of the following manner:

a. Repayment Income

The subsidy may be paid directly to the borrower and added to the borrower's monthly repayment income in determining the homebuyer's qualifying ratios. The amount of this non-taxable subsidy may be "grossed up" under section 1980.345 to compensate for its non taxable status. The subsidy will be "grossed up" by 25 percent, i.e. the amount of the subsidy plus 25 percent of that subsidy may be added to the borrower's income from employment and/or other sources when calculating repayment income. This "grossed-up" percentage is slightly higher than the percentage used for the SFHDLP, and is due to the fact that the SFHGLP borrowers often have a higher level of income than those borrowers in the SFHDLP. SFHDLP borrowers are of low- and very-low incomes, while SFHGLP borrowers are of low- and moderate incomes. The 25 percent "gross up" is similar to the guidelines for Federal Housing Administration (FHA) loans and other major industry participants such as Fannie Mae and Freddie Mac.

OR

b. Offset to Principal, Interest, Taxes and Insurance (PITI)

Lenders may treat the monthly homeownership assistance payment as an “offset” to the monthly PITI, i.e. reduce the payment by the amount of the homeownership assistance payment before dividing by the monthly income to determine the debt-to-income ratios. However, in order to use this procedure for qualifying the borrower, the homeownership assistance funds must not pass through the hands of the homebuyer, i.e. the homeownership assistance payment must be paid directly to the servicing lender or placed into an account that only the servicing lender may access. If the homeownership assistance payment is made directly to the borrower, that amount may only be considered as repayment income in qualifying the borrower as described in the “Repayment Income” paragraph above.

Rural Development believes these underwriting guidelines will increase homeownership opportunities for those homebuyers who receive Section 8 monthly homeownership assistance payments while not increasing the risk of borrower defaults on the mortgage.

State Offices with questions regarding this AN, should contact David Chaput or Joaquín Tremols of the Single Family Housing Guaranteed Loan Division at 202-720-1452 or via email at david.chaput@wdc.usda.gov or joaquin.tremols@wdc.usda.gov.