



Photography of Florida Home Partnership self-help project by Thomas Levine.

The Housing Assistance Council (HAC)

is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender.

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## USDA'S SELF-HELP HOUSING PROGRAM SUPPORTS RURAL MINORITY HOMEOWNERSHIP

Self-help housing may well be the federal government's most successful homeownership activity, and minorities make up a significant proportion of the participants in the self-help program of the U.S. Department of Agriculture (USDA). Yet the Administration has proposed to stop funding the self-help program in fiscal year 2012 and also to cut 80 percent of the funding for a low-cost mortgage program that serves many self-help families. These reductions would end the homeownership hopes of some of the most hard-working people in rural America.

**MINORITIES IN RURAL AREAS ARE AMONG THE POOREST AND WORST HOUSED GROUPS IN THE U.S.** According to the most recent Census figures, rural minorities have lower incomes and higher poverty rates than the nation and their metropolitan counterparts. Median incomes for rural African Americans (\$23,981) and rural Hispanics (\$33,517) are lower than the median income for rural whites (\$42,160). Consistent with lower incomes, rural African-Americans experience the highest poverty rates at 33.1 percent, followed by Hispanics at 27.4 percent, compared to white non-Hispanic poverty at 13.3 percent.

Non-white and Hispanic rural households are three times more likely to live in substandard housing than white rural residents. Minorities are also more likely to live in inadequate housing in rural areas than in metropolitan areas. Rural African Americans have particularly high substandard housing rates: more than one in five rural African-American households lives in substandard housing.

In rural places, as in metropolitan areas, homeownership rates are lower for minorities than for whites: in 2009 the nonmetro rate was 76 percent for non-Hispanic whites, 55 percent for African Americans, and 57 percent for Hispanics.

**Funding for rural self-help homeownership (USDA's Section 502 direct and 523 programs) should be maintained at FY10 levels.** In FY10 the Section 502 direct loan program received \$1.12 billion and the Section 523 self-help program received \$41.0 million. To continue providing homeownership opportunities for rural minorities who could not otherwise afford to buy homes, the programs should receive the same appropriations in FY11 and FY12.



### SELF-HELP HOUSING BUILDS ASSETS AND COMMUNITIES.

Under USDA's self-help program, known as Section 523, local nonprofit organizations and local government agencies organize groups of eight to ten low-income families who work together building their own and their neighbors' homes. Families provide 65 percent of the construction labor, spending long hours working on their houses in the evenings after work and on weekends. Thus, each family has "sweat equity" in their home immediately when it is finished. Self-help is a powerful way to generate solid assets for low- and very low-income people.

Because it involves groups working together, USDA's self-help method builds communities as well. A Housing Assistance Council survey in 2005 found that over 90 percent of self-help participants continued to visit and rely on their neighbors even after their homes were completed. Their children clearly benefited from living in stable communities: most of them were engaged in school and extracurricular activities and were positive about their futures. Fully 90 percent of the surveyed adult children of self-help families had graduated from high school, 55 percent went on to college, and almost 20 percent were already homeowners although their median age was only 24.

**LOW-COST MORTGAGES INCREASE AFFORDABILITY.** A large proportion of the more than 36,000 low-income rural families who have participated in the self-help program since 1963 have obtained affordable mortgages through USDA's direct mortgage loan program, known as Section 502 direct. The median income of those with outstanding loans at the end of 2010 was \$26,700, about half the national median income for all homeowners.

In each year from 2008 through 2010, about half of the new self-help homeowners with Section 502 loans have been minorities, primarily Hispanics and African Americans.

### LOCAL ORGANIZATIONS MAKE SELF-HELP WORK.

The self-help program's successes are possible only because self-help development organizations provide experienced oversight for the participating families. USDA's Section 523 self-help program funds local nonprofits and local government agencies to play that essential role. Currently over 100 organizations in 37 states, Puerto Rico, and the Western Pacific Islands participate. They screen program applicants, make homebuyer counseling available for them, provide construction supervisors, and arrange for contractors.

### GUARANTEED LOANS CANNOT REPLACE DIRECT LOANS AND SWEAT EQUITY, ESPECIALLY FOR

**MINORITIES.** USDA Secretary Tom Vilsack told the House Agriculture Appropriations Committee that his department could meet its homeownership goals with its Section 502 guarantee program, but the direct and guarantee programs serve different people. In the direct program, USDA is the lender, whereas in the guarantee program the loans are made by banks. Guaranteed loans are at market interest rates, making payments higher for 502 guaranteed mortgages than for direct mortgages.

The guarantee program does make loans to some low-income families. It is likely, however, that most of the guarantee program's participants with low incomes (under 80 percent of area median income) are in high median income communities and not in more isolated rural areas. In fiscal year 2009, the average household income for direct borrowers was \$26,629 while guaranteed loan recipients earned an average of \$46,720. In addition, while slightly over 30 percent of direct loans went to non-whites and Hispanics in FY2010, just 15 percent of guaranteed borrowers were rural minorities.

## USDA SECTION 502 SELF HELP LOANS BY RACE & ETHNICITY, FY 2010

