

USDA RURAL HOUSING PROGRAM OBLIGATIONS: FY 2013 EXECUTIVE SUMMARY

INTRODUCTION

The Housing Assistance Council (HAC) presents a review of USDA's rural housing loan and grant obligation activity in this publication, *USDA Rural Development Housing Program Obligations: FY 2013 Year-End Report*.

Since the 1950s, the United States Department of Agriculture has financed the construction, repair, and affordability of millions of homes for low- and moderate-income rural Americans. This activity is accomplished primarily through its Rural Development (RD) agency (formerly the Farmer's Home Administration). In Fiscal Year 2013, RD obligated approximately \$23.4 billion in loans, grants, and loan guarantees that were used to build, purchase, repair, or support 177,387 units of affordable housing for low- and moderate-income families in rural areas. Since the first USDA housing loan was made (around 1950), USDA has funded nearly 4.4 million loans, grants, or guarantees representing over \$223 billion to construct, purchase, or repair rural housing units.

Beginning in 1978, USDA also provided funding for rental assistance to help tenants better afford to rent housing in agency financed multifamily housing units. In FY 2013, USDA provided \$850 million in the form of rental assistance and vouchers to support low- and very low-income rural tenants. Over the years, USDA funded over \$18 billion to provide annual rental assistance and tenant vouchers supporting more than 2.1 million rental housing units.

Fiscal year (FY) 2013 proved to be an especially challenging year for most annually appropriated federal rural housing programs. Significant differences between the House and Senate appropriation bills and a six-month Continuing Resolution bill severely limited available funding for direct loan programs during the first half of FY 2013. A second Continuing Resolution bill restored a portion of the funding but a sequestration of funds coupled with another across-the-board reduction cut 7.5 percent from each rural housing program. The late enactment of the FY 2013 funding bill delayed access to a significant portion of the funding resulting in increased pressure to process loans and grants within the time remaining in the fiscal year. Some of the highlights of USDA's FY 2013 housing obligation activities are presented below.

SINGLE-FAMILY HOUSING PROGRAMS

The flagship of USDA's single-family housing efforts is the Section 502 Homeownership Loan Program. Section 502 loans provide both direct and guaranteed mortgage assistance for low- and moderate-income households. USDA RD also supports a mutual "self-help" housing component in which families perform a substantial amount of construction labor on their own homes to help reduce costs. Home repair and rehabilitation activity is primarily supported through RD's Section 504 Repair and Rehabilitation program. Through Section 504, USDA RD makes loans and grants available to very low-income households to improve or modernize their homes or to remove health and safety hazards.

Section 502 Loan Guarantees Continue to Dominate RD Lending Activity. In recent years, Section 502 Homeownership Loans have dramatically shifted away from direct lending in favor of loan guarantees. In FY 2013, approximately 96 percent of Section 502 dollars were obligated under the guaranteed component, a slight increase from FY 2012. Nearly 163,000 homeownership loans were guaranteed in FY 2013 totaling \$22.4 billion. In contrast, 7,111 direct homeownership loans were made comprising over \$827 million. There has been a steady decline

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in the number of direct loans since FY 2006 (except for additional funding provided under the American Recovery and Reinvestment Act for FY 2009 and 2010).

Since the inception of the program, there have been over 2.1 million homes financed through the Section 502 Direct loan program representing more than \$69 billion. The Section 502 Guarantee program has financed over 1.1 million homes representing nearly \$133 billion.

FY 2013 represents the lowest number of Direct Section 502 loans made since 1961.

Share of Section 502 Direct for Very Low-Income (VLI) Households Decreases. The Housing Act of 1949, mandates that at least 40 percent of Section 502 direct loan dollars be made available to households that have very low-incomes (income at or below 50 percent of the area median income). The overall share of direct loans for very low-income households began to decline in FY 2005. RD made a concerted effort to increase VLI activity in the last couple of years. However, in FY 2013, the Agency failed to obligate about \$12.9 million of Section 502 Direct funding, which represented very low income funding. Very low-income obligations represented 39.1 percent of direct loans in FY 2013.

Number of Section 502 Direct Loans for Self-Help Housing Increased Slightly. In recent years, about 10 to 15 percent of the Section 502 Direct loan funding has been used to support Self-Help housing. Obligations for Self-Help peaked in FY 2005 when 1,743 loans were obligated representing nearly \$161 billion. Similar to the trends for the overall program, the number of loans for Self-Help housing has been declining. FY 2013 did see an improvement over the previous year (1,084 loans representing over \$146 million versus 922 loans representing \$121 million). Nearly 41 percent of the Self-Help loan dollars obligated in FY 2013 went to very low-income borrowers.

Section 504 Repair and Rehab Loan Obligation Increases From Last Year, But a Significant Portion Goes Unobligated. The Section 504 Repair and Rehabilitation Loan and Grant programs assist very low-income homeowners in repairing their homes with an emphasis on removing health and safety hazards. Grant funds, available only to homeowners age 62 and older are typically fully obligated. Grant funding has been somewhat more stable than loan funding since 2006. The number of Section 504 loans obligated has been on a declining trend. In FY 2013, the Agency did not fully obligate its appropriation of Section 504 loans, at least partially due to budget uncertainties resulting from a late final appropriation. During the previous year, FY 2012, appropriations of 504 loan funds were significantly lower than historic program levels.

MULTIFAMILY HOUSING PROGRAMS

The predominance of homeownership in many rural areas overshadows the importance of the rental housing stock and the needs of rural renters. Rural rental households experience some of the most significant housing problems in the United States. USDA's Section 515 Rural Rental Housing program has been the mainstay of RD's efforts to serve the poorest of the rural poor for the past 45 years. The Section 515 program provides mortgage loans to develop rental

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housing for very low-, low-, and moderate-income households. The loss of this rental housing stock has become a major concern in recent years.

Other USDA programs such as Section 521 Rental Assistance, Section 514/516 Farm Labor Housing and Section 538 Guaranteed loans are also important components of USDA's multifamily housing efforts. Since 1978, USDA has financed the development of over 565,000 rental units.

Section 515 Multifamily New Construction Was Nonexistent. In FY 2013, there were no Section 515 Multifamily Housing loans to construct new units of rental housing. This was the second year in a row that no new units were financed with Section 515 loans.

The Majority of Section 515 Funds Were Used for Rehabilitation of Existing Stock. The FY 2013 Section 515 allocation was used for repair and rehabilitation of the existing Section 515 portfolio. Approximately \$29 million was obligated for repair and rehabilitation of 42 Section 515 properties representing 1,399 repaired or rehabilitated units. This is approximately \$30 million less than was obligated in FY 2012.

Rental Assistance Funding Inadequate To Cover Expiring Contracts. In total, 190,697 USDA financed units received Rental Assistance in FY 2013 at a cost of roughly \$837 billion. This is over 15,500 fewer units and over \$67.6 million less than in FY 2012. Rental Assistance contracts expiring in September 2013 could not be renewed because the Agency exhausted its funding. A significant amount of the shortfall was due to the sequestration/rescission of funds. Through the end of FY 2013, the Section 521 Rental Assistance program has provided over \$18 billion to help very low-income tenants to afford their monthly rental costs in RD financed Section 515 units.

Sequestration Is Not the Only Issue Creating Challenges for Rental Assistance. Before FY 2008, USDA provided Rental Assistance through multiyear contracts. For many years, Rental Assistance contracts were written for 20 years. USDA estimated and committed the funding needed for the full contract term. The contract lengths changed several times over the years to shorten the terms as project rents increased. As the multiyear contracts spent down the available funding, the number of units requiring annual renewals increased. During FY 2013, about 30 percent of the units were able to continue operations from these funds. For FY 2014 and beyond, more and more units will require annual funding. Based on 2013 averages, this will eventually increase the need for Rental Assistance funding by about \$160 million per year.

Multifamily Housing Vouchers Are Concentrated. USDA issued approximately 3,842 tenant vouchers, also referred to as Section 542 Multifamily Housing Vouchers, to low-income renters in rural areas. The majority of these vouchers were issued to tenants who were displaced from their Section 515 rental property after the loan was prepaid by the owner and removed from the affordable stock. Vouchers were issued in 47 states, with more than two-thirds of them issued in 14 States, Florida, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New York, South Carolina, Texas, Washington, and Wisconsin.

The number and amount of tenant vouchers has increased each year since the program began in FY 2006. USDA published a proposed rule in August 2013 to implement the Rural Development Voucher Program (RDVP). The program has been conducted as a demonstration program funded by Congress to protect eligible multi-family housing tenants living in Agency financed Section 515

Rural Rental Housing properties who may be subject to economic hardship through prepayment or foreclosure of the Rural Development mortgage.