USDA RURAL HOUSING PROGRAM FUNDING ACTIVITY: FY 2014 EXECUTIVE SUMMARY

INTRODUCTION

The Housing Assistance Council (HAC) presents an overview of the United States Department of Agriculture's (USDA) rural housing loan and grant obligation activity in this publication, *USDA Rural Development Housing Program Funding Activity: FY 2014 Year-End Report.* The term "obligation" means that the agency has committed funding to a specific loan or grant application. FY 2014 began on October 1, 2013 and ended September 30, 2014.

Since the 1950s, USDA has provided financial assistance for the construction, repair, and affordability of millions of homes for low- and moderate-income rural Americans. USDA accomplishes this activity through its Rural Development (RD) agency (formerly the Farmer's Home Administration). In Fiscal Year (FY) 2014, RD obligated approximately $20.2 billion in loans, grants, and loan guarantees to build, purchase, repair, or support 153,850 units of affordable housing for low- and moderate-income families in rural areas. Since the first USDA housing loan was made (around 1950), the agency has funded over 4.5 million loans, grants, or guarantees representing over $243 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 multi-family housing units. In FY 2014, USDA delivered $1.1 billion in the form of rental assistance and vouchers to support low- and very low-income rural tenants. Since the late 1970s, USDA had funded over $19 billion for rental assistance and tenant vouchers.

FY 2014 proved to be another challenging year, especially for the single-family housing programs. The year started with a government-wide shutdown lasting almost 3 weeks in October 2013. Very few loans were obligated in October due to the time lost in the shutdown. After a couple of short-term Continuing Resolutions, a final Appropriations Bill was enacted into law on January 17, 2014. Some of the highlights of USDA's FY 2014 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. RD's Section 504 Repair and Rehabilitation program provides funding for home repair and rehabilitation activity. 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. Since FY 1995, Section 502 Homeownership loans began to shift away from direct lending in favor of loan guarantees. In FY 2009, the trend dramatically accelerated. Now the guaranteed component comprises approximately 96 percent of Section 502 dollars obligated. USDA guaranteed nearly 140,000 homeownership loans in FY 2014 totaling $19.1 billion. In contrast, direct homeownership loans totaled just over $808 million (6,560 loans). This is about $19 million less than FY 2013. Direct loan funding steadily declined over the years except during FY 2009 and 2010 when additional money provided by the American Recovery and Reinvestment Act was available. FY 2014 represents the lowest number of Direct Section 502 loans made since 1961.

Since the inception of the program, the Section 502 Direct Loan program financed over 2.1 million homes representing more than $70 billion. The Section 502 Guarantee program has financed over 1.3 million homes representing nearly $152 billion.

The average income for a household receiving a Section 502 Direct Loan in FY 2014 was $29,512 while the average income for a household receiving a Section 502 Guaranteed loan was $56,393.

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 very low-income households (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. In FY 2014, the Agency was unable to obligate about $91.9 million of Section 502 Direct funding. The unobligated portion consisted of very low-income funds. In FY 2013, $12.9 million of very low-income funding was left unobligated.

Very low-income obligations comprised 33.2 percent of the direct loans in FY 2014. Only twelve (12) states met the 40 percent threshold in FY 2014. Twenty-six (26) states obligated less than 30 percent of their funds for VLI loans.

It is important to note that VLI loans are smaller than low-income loans. Often this is because VLI loans are leveraged with soft second or grant financing from other sources to make the homes more affordable. When viewed based on the number of loans rather than dollars obligated, 19 states obligated at least 40 percent of the loans for VLI borrowers.

Number of Section 502 Direct Loans for Self-Help Housing Declined. In recent years, loans for self-help housing comprised about 10 to 15 percent of the Section 502 Direct Loan obligations. The number of loans for self-help reached an all-time high in FY 2005 when 1,743 loans were obligated representing nearly $161 million. Similar to the trends for the overall program, the number of loans for self-help housing has been declining. In FY 2014, the agency obligated 868 loans for self-help representing $124 million.

The average income for a household receiving a Section 502 Direct Loan for self-help housing in FY 2014 was $30,306. These incomes may be somewhat higher than for the overall Section 502 program because Self-Help housing is often built in higher cost areas.

Section 504 Repair and Rehab Loan Obligation Increases From Last Year, But a Significant Portion Was Not Obligated. 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.

For the second year in a row, only about half of the Section 504 loan funds were obligated. The number of Section 504 loans obligated has been on a declining trend for quite some time as appropriation levels remained level or decreased and the average loan amount increased. Most years, however, USDA used most of the funds. This has not been true in recent years.

Grant funds for repair or rehabilitation, available only to homeowners age 62 and older, are typically fully or nearly fully obligated.

The average income for a household receiving a Section 504 loan in FY 2014 was $14,325. The average income for a household receiving a Section 504 grant was $13,489.

Uneven State Usage Rates of Single-Family Housing Program Allocated Funding. USDA allocates appropriated funding to each state for all of the Section 502 and Section 504 programs. The National Office maintains a reserve that state offices can access for certain designated purposes or when they have used all of their allocated funding, so some states may obligated more than 100 percent of their allocated funding. Funds for other rural housing programs are not allocated.

The FY 2014 allocations, published in RD Instruction 1940-L on December 1, 2014, are compared to the state obligation figures on the tables herein. For the Section 502 Direct program, state obligation rates (program dollars obligated divided by program dollars allocated) ranged from 30.8 percent to 781.6 percent. Twenty-seven (27) states used 95 percent or more of their fund allocations. Fifteen (15) states obligated less than 75 percent of their allocated funding and of these, six (6) states used less than 50 percent of the funds.

In the Section 502 Loan Guarantee program, thirty-nine (39) states used 95 percent or more of their allocated funds. Obligation rates in this program ranged from 29.5 percent to over 171 percent. Five (5) states utilized less than 75 percent of the allocated funds and of these, three (3) states obligated less than 50 percent.

Only eight (8) states used all of their Section 504 loan fund allocation in FY 2014. Thirty states obligated less than 50 percent of their allocation. Use of Section 504 grant funds was somewhat better. Twenty-six (26) states used all of their allocated funds. Nine (9) states obligated less than half of their allocation.

Less Than Full Utilization of Section 523 Mutual Self-Help Technical Assistance Grant Funds. FY 2014 was especially challenging for the Section 523 program. Appropriated funding levels were reduced from $30 million or more to $25 million. USDA decided to reduce funding levels for grantees to 90 percent of their previous grant in an effort to conserve funding and assure existing grantees could be funded. Some grantees reported delays in getting their grants approved and others decided to wait to apply for funding in hopes of a change in policy. Less than 75 percent of the appropriated funds were obligated in FY 2014.

MULTI-FAMILY 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 renter 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. The Section 515 program provides mortgage loans to develop rental 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 multi-family housing efforts. Since 1978, USDA has financed the development of over 606,000 rental units.

Section 515 Multi-Family New Construction Has Been Nonexistent for Several Years. In FY 2014, as in the previous two fiscal years, there were no Section 515 Multi-Family Housing loans to develop new units of rental housing.

The average income of a tenant living in a Section 515 financed apartment was $12,022 in FY 2014.

The Majority of Section 515 Funds Were Used for Rehabilitation of Existing Stock. Most of the FY 2014 Section 515 allocation financed repair and rehabilitation of the existing Section 515 portfolio. This funding, combined with money from the Multi-Family Preservation and Revitalization program, provided over $84 million to repair and rehabilitate over 3,300 units.

Maintaining a Watch on Rental Assistance Funding. In total, over 252,000 USDA financed units received roughly $1.1 billion in Rental Assistance funding in FY 2014. This is an increase of over 62,000 units and more than $263 million than in FY 2013. A number of Rental Assistance contracts expiring in September 2013 could not be renewed due to the sequestration/rescission of funds. 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. Over the years, the length of the rental assistance contracts decreased while unit rents increased. As the multiyear contracts spent down the available funding, the number of units requiring annual renewals increased. During FY 2014, USDA reports there were 272,232 households receiving Rental Assistance. In FY 2014, the Agency obligated 252,512 units of rental assistance. About 19,700, were able to continue operations from older contract funds. For FY 2015 and beyond, more of the units on older contracts will require annual funding. At the same time, projects financed in the early years of the program are beginning to fully mature. With the final loan payment, the project will no longer be eligible for Rental Assistance.

The average income of a tenant living in a Section 515 financed apartment who also received Rental Assistance was $10,054 in FY 2014.

Multi-Family Housing Vouchers Are Concentrated. USDA issued approximately 4,007 tenant vouchers, also referred to as Section 542 Multi-Family Housing Vouchers, to low-income renters in rural areas. Most of these vouchers were issued to displaced tenants from Section 515 rental properties after the loan was prepaid by the owner. Vouchers were issued in 49 states, with more than half of them issued in 7 states, Florida, Iowa, Michigan, Missouri, 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. A Final Rule has not been published at the time of this writing.