

## **EXECUTIVE SUMMARY**

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# USDA RURAL HOUSING SERVICE PROGRAM OBLIGATIONS

## Fiscal Year (FY) 2015

### Executive Summary

The Housing Assistance Council (HAC) presents an overview of the United States Department of Agriculture (USDA) Fiscal Year (FY) 2015 USDA Rural Housing program obligation activity in this publication, *USDA Rural Development Housing Funding Activity: Fiscal Year 2015 Year-End Report*.

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 FY 2015, USDA obligated 149,108 loans, loan guarantees, and grants totaling about \$19.9 billion. Since the first USDA housing loan was made (around 1950), the agency has funded the construction, purchase or repair of over 4.67 million rural housing units representing \$263 billion.

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 2015, USDA obligated 249,468 annual units of tenant assistance representing over \$1.1 billion through the combined total of the Section 521 Rental Assistance and the Section 542 Rural Housing Voucher programs. Since the late 1970s, USDA funded over \$20 billion for rental assistance and tenant vouchers representing 2.67 million annual units.

FY 2015 was an improvement for some programs and a challenge in others. After a couple of short-term Continuing Resolutions, a final appropriations bill was enacted into law on December 17, 2015. Some of the highlights of USDA's FY 2015 housing obligation activities are presented below.

### Single Family Housing Programs

Section 502 Homeownership loans have been the center of USDA's single family housing programs. Providing both direct and guaranteed mortgage assistance, the agency serves low- and moderate-income households. The Section 504 Repair and Rehabilitation program provides low-interest loans and grant funding for very low-income households to help them improve or modernize their homes and remove health and safety hazards.

***Section 502 Loan Guarantees Continue to Dominate RD Lending Activity.*** Since FY 1995, Section 502 Homeownership loans have shifted emphasis from direct lending in favor of loan guarantees. The Section 502 Guaranteed loan program, the largest of the Single Family Housing programs, obligated \$18.6 billion (134,255) in loan guarantees. Obligations totaled approximately \$428 million (about 2.2 percent) less than FY 2014. The program volume reached an all-time high in terms of numbers and dollars obligated in FY 2013. While loan volume remains high, the reduction in the numbers of loans may indicate increasing availability of other sources of credit for moderate-income rural borrowers. Since the beginnings of the program, the Section 502 Guarantee program has funded 1.49 million homes representing \$170 million.

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The average income for a household receiving a Section 502 loan guarantee in FY 2015 was \$57,718.

**Full Fund Utilization for the Section 502 Direct Program but Very Low-Income (VLI) Loan Volume Declines Again.** For the first time in several years, Section 502 Direct program funding was fully obligated (\$899.8 million (7,064 loans) of a total \$900 million available.) However, to accomplish this, about \$73.8 million was shifted from VLI to Low-income (LI) loans towards the end of the fiscal year.

Very low-income loans as a percentage of the total dollars obligated for the program was 31.8 percent. This is the lowest level of VLI funding since at least FY 2000. Only nine (9) states met the 40 percent threshold in FY 2014. Eighteen (18) states obligated less than 30 percent of their funds for VLI loans

The average income for Section 502 Direct loan borrowers approved in FY 2015 was \$30,082.

**Fifty Years, Fifty thousand Self-Help Homes.** USDA and the mutual self-help community celebrated fifty (50) years of Self-Help housing in 2015. This program helps families build their own homes at reduced cost through their contribution of a substantial amount of the construction labor needed to build their own homes. In FY 2015, USDA funded 840 Self-Help homes totaling \$121.5 million. Over the last 50 years, the agency provided nearly \$3.5 million of Direct Section 502 loan funding to build 50,584 homes. It should be noted that Section 502 loans for Self-Help housing are included in the Section 502 Direct loan numbers above.

The average income for a Section 502 borrower who participated in the Self-Help program in FY 2015 was \$30,814.

**Section 504 Repair and Rehab Loan Obligations Increase, But Loan Funds Were Not Fully 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.

The Section 504 Repair and Rehabilitation programs obligated 2,510 loans representing \$15.1 million and 4,728 grants representing \$29 million. Section 504 loan usage increased by more than \$1 million over last year. This was the highest loan volume since FY 2011. However, about \$11 million remained unobligated at the end of the fiscal year.

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 2015 was \$14,618. The average income for a household receiving a Section 504 grant was \$13,840.

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#### **Multi-Family Housing Programs**

In recent years, the USDA Section 538 loan guarantee program has been the agency's main source for new construction rental housing units. While the Section 538 program reaches some low- and very low-income households, USDA does not provide tenant subsidy (rental assistance funding) for these projects. The Section 515 Rural Rental Housing funding has been mainly used for repair and rehabilitation of existing agency financed units. The Section 521 Rental Assistance program is the single largest line item in the USDA Rural Development budget. Recent budget years have been challenging for the Rental Assistance program.

**Rehabilitation of Existing Stock Remains the Primary Use of USDA Multi-Family Loan and Grant Funds.** In FY 2015, USDA obligated 26 loans in the Section 515 program representing \$28.3 million. The Section 538 loan guarantee program provided \$113.9 million to fund 89 projects. USDA also approved 113 Section 533 Housing Preservation grants totaling \$4.3 million. Funding from these programs, combined with about \$105.6 million in Multifamily Housing Preservation and Revitalization loans, were used to repair and rehabilitate 8,656 units and build 2,187 new units.

**Insufficient Funding for Renewal of Expiring Section 521 Rental Assistance Contracts Funds.** USDA funded approximately 250 thousand Section 521 Rental Assistance (RA) units representing \$1.09 billion. The funding available was not sufficient to renew all of the expiring RA contracts. In part this was due to the sequestration of funds in FY 2013 which resulted in a shortage of funds in FY 2014 and again in FY 2015. It is important to understand that budget estimates are made two years in advance and therefore did not account for the sequester. An additional issue was created in FY 2015 when a provision was placed in the appropriation language prohibiting renewals of RA contracts less than 12 months from the date of obligation.

**Demand for Multi-Family Housing Vouchers Continues to Increase But Remains Concentrated.** Section 542 vouchers totaled 4,469 units representing \$15.6 million. Over 3,000 of the vouchers are located in 11 states: Florida, Illinois, Indiana, Iowa, Michigan, Missouri, South Carolina, South Dakota, Texas, Washington, and Wisconsin.

The number and amount of the vouchers has increased each year. Over half of the funds for this year's vouchers came from the Multifamily Preservation and Revitalization funding.