

SAVING USDA RURAL DEVELOPMENT AND ITS PROGRAMS

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Background

For well over half a century, USDA has been the one consistent resource available to assist rural communities in their efforts to meet housing, infrastructure, and facility needs. With a local presence unrivaled by most federal or even state agencies, USDA Rural Development (RD) has been the go-to resource for local community development. With financing for homeownership, rental and farmworker housing, water and wastewater systems, mutual self-help housing, economic development, and facilities like libraries and fire stations, the local USDA RD office has been the doorway to opportunity for communities across rural America.

Section 502 Direct, Section 515 Multifamily Housing, Section 514/516 Farm Labor Housing, Sections 504 and 533 Home Repair, Section 523 Mutual Self-Help, and Section 521 Rental Assistance are key to meeting the housing needs of very low-income rural residents. Yet reduced appropriations and a shift to loan guarantees threaten the safety net of housing for rural America's poorest households.

Issues/Challenges and Opportunities

Community Eligibility for Rural Housing Programs: On March 27, 2013 nearly 1,000 communities are scheduled to lose eligibility for rural housing programs because their populations have grown since 1990 or their counties have been designated as parts of metropolitan areas. Congress has not extended the statutory "grandfather clause" that has maintained their eligibility so far, and USDA has not delayed its impact beyond March. Debate over an appropriate definition of "rural" has gone on for decades, with no single, clear answer. In this vacuum, the Census definitions of metropolitan and nonmetropolitan are commonly used as the equivalent of urban and rural. Yet this oversimplification ignores the fact that half of all rural residents live in metropolitan counties.

While rural housing programs face narrowing eligibility, there is movement to expand eligibility for USDA's other rural development programs to include communities with populations up to 50,000. Unless there is an increase in funds – a change that seems very unlikely – more (and larger) communities will be competing for the same limited resources.

Reduced Funding: Despite the importance and success of USDA Rural Development programs, they suffer from a lack of priority within the massive Agriculture budget. This is especially true of direct lending for rural housing. Reduced appropriations have become the norm, with an increased focus on loan guarantees. Overall RD funding has declined over the past decade, and funding for both homeownership and rural rental housing has borne the brunt of the reductions. While the USDA budget fell by 16 percent, rural housing programs were cut by 23.5 percent.

The Shift to Guarantees: While guaranteed loans have expanded the reach of rural housing programs, guaranteed loans do not reach the same low- and very low-income population as direct loans. In fact, USDA's own Economic Research Service labeled the Section 502 guarantee program as the "least-targeted" RD program. In the current interest rate environment, Section 502 guaranteed has been able to serve an increased number of very low-income borrowers. When interest rates inevitably rise again, however, the program will certainly return to its historic profile of higher income borrowers. Similarly, a shift from Section 515 rental housing loans to Section 538 guarantees diminishes the ability to develop housing affordable to those with the lowest income levels.

The Shrinking RD Organization: As a result of ongoing budget reductions, local RD offices and staff have been lost, with a corresponding reduction of the agency's footprint in rural America. The offices that remain occasionally struggle to meet the demand for services. Until the early 1990s Farmers Home Administration (precursor to RD) had more than 2,800 offices in almost 2,000 counties. By 2010, the number had dropped to about 800 offices, with more cuts proposed for the future.

Discussion Questions

- What should be done to encourage legislation that establishes realistic community eligibility for USDA rural housing and community development funding?
- Are there ways to improve the efficiency of rural housing programs without losing the important connection with rural borrowers? What are the opportunities for nonprofit organizations to build an expanded role in USDA RD program delivery? What role should HAC and other national organizations play?
- Several proposals are on the table for the use of potential savings from reform of the mortgage interest deduction; should there be a proposal specific to USDA rural housing programs?
- With tight budgets ahead, what is the best way to gain support for rural housing programs? What allies and constituency groups have mutual interests?