



## Housing Assistance Council

Building Rural Communities

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### **Affordable Rural Housing Issues and Recommendations: DIRECT AND GUARANTEED LOANS**

Among the housing programs administered by the U.S. Department of Agriculture's Rural Development (RD) arm are direct loan programs for homeownership and for development of rental housing, and loan guarantee programs for the same two purposes. The Bush Administration's budget proposals consistently suggested defunding the direct loan programs in favor of the guarantee programs. While guarantees cost the government less than direct loans, the guarantee programs cannot replace the direct loans because they serve different populations.

In 2006 homebuyers receiving Section 502 direct loans had an average income of \$22,992, compared to \$40,442 for homebuyers with Section 502 guaranteed loans.

Similarly, the average income of tenants in developments financed with Section 515 direct loans is just under \$11,000 per year as of April 2008. No comparable figure is available for tenants in properties with private loans guaranteed under USDA's Section 538 program, but in 2005 USDA reported Section 538 tenants averaged about \$18,400 per year.

The Section 502 direct loan program is particularly important in the current economy because it makes homeownership possible for very low- and low-income rural residents who cannot qualify for private mortgages, ensuring that they will not turn to predatory lenders to achieve their dreams.

Thus, the Housing Assistance Council encourages the Obama Administration and the 111<sup>th</sup> Congress to:

- △ **Ensure that direct rural housing loan programs are not replaced by loan guarantee programs that cannot serve the same income levels.** The Section 502 and 515 direct loan programs must be kept in place with full funding, along with the Section 502 and 538 guarantee programs.
- △ **Provide the same protections for Section 502 guaranteed borrowers** as for direct borrowers.
  - **Allow guaranteed borrowers to appeal decisions** regarding their loans.
  - **Implement for guaranteed borrowers the moratorium program** that is available to direct borrowers who are unable to meet payment requirements for reasons beyond their control, such as loss of a job. A payment moratorium could mean the difference between foreclosure and sustainable homeownership for a family.
  - **Rather than requiring the guaranteed lender to liquidate a loan when default occurs, require that guaranteed loans be assigned to the government** prior to liquidation, as direct loans are.