

RURAL RESEARCH NOTE

January 27, 2014

THE HOUSING ASSISTANCE COUNCIL

The Housing Assistance Council (HAC) is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender.

A Perplexing Year for Rural Housing: Fiscal Year (FY) 2013 USDA Rural Housing Program Obligations

In Fiscal Year 2013, USDA's Rural Development (RD) Agency obligated approximately \$23.4 billion in loans, grants, and loan guarantees which were used to build, purchase, repair, or support 177,387 units of affordable housing for low- and moderate-income families in rural areas.

FY 2013 proved to be an especially challenging year for most annually appropriated federal rural housing programs. For half of the fiscal year, significant differences between the House and Senate appropriation bills and a six-month Continuing Resolution bill severely constrained funding for direct rural housing loan programs. 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.

REVIEW OF SINGLE-FAMILY HOUSING PROGRAM ACTIVITY

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 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 Funding 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 exclusively 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, approximately 10 to 15 percent of the Section 502 Direct loan funding were used to support Self-Help housing production. 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. However, there was a slight improvement in Self-Help production over the previous year (FY 2013: 1,084 loans representing over \$146 million, FY 2012: 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 Obligations Increase , 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. Section 504 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, 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 historical program levels.

REVIEW OF MULTIFAMILY HOUSING PROGRAMS HIGHLIGHTS

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 had 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.

HISTORIC PROGRAM ACTIVITY

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 rents 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.

USDA Rural Housing Obligations, Fiscal Year (FY) 2013					
Program	Dollars Obligated	Loans/ Grants	Estimated FY 2013 Appropriation Level*	Percent of Funds Obligated	Estimated Remaining Funds*
Section 502 Direct Loans	\$827,165,231	7,111	\$840,089,631	98.5%	\$12,924,400
Section 502 Guaranteed Loans	\$22,350,462,183	162,943	\$24,000,000,000	93.1%	\$1,649,537,817
Section 504 Repair & Rehabilitation Loans	\$14,335,067	2,412	\$27,148,121	52.8%	\$12,813,054
Section 504 Repair & Rehabilitation Grants	\$27,167,965	4,594	\$26,800,575	101.4%	-\$367,390
Section 509-C Compensation for Construction Defects	\$0	0	\$400,985	NA	NA
Section 509/525 Technical Assistance Grants	\$0	0	\$0	NA	NA
Section 514 Farm Labor Housing Loans	\$18,880,633	16	\$20,800,000	90.8%	\$1,919,367
Section 515 Rental Housing Loans	\$29,134,660	42	\$31,300,000	93.1%	\$2,165,340
Section 516 Farm Labor Housing Grants	\$8,840,682	8	\$7,100,000	124.5%	-\$1,740,682
Section 523 Mutual and Self-Help Housing Grants & Contracts	\$31,382,662	50	\$27,678,428	113.4%	-\$3,704,234
Section 523 Self-Help Site Loans	\$0	0	\$5,000,000	0.0%	\$5,000,000
Section 524 Site Loans	\$0	0	\$0	NA	\$0
Section 533 Housing Preservation Grants	\$4,086,220	96	\$4,248,836	96.2%	\$162,616
Section 538 Guaranteed Rental Housing Loans	\$52,226,602	39	\$150,000,000	34.8%	\$97,773,398
Section 306 Water & Waste Disposal Grants	\$137,712	29	\$500,000	27.5%	\$362,288
SFH & MFH Credit Sales	\$652,940	12	Not Available	NA	NA
Multifamily Housing Preservation & Revitalization (MPR) Loans	\$20,865,150	32	Not Available	NA	NA
Multifamily Housing Preservation & Revitalization (MPR) Grants	\$154,990	3	\$17,800,000	0.9%	\$17,645,010
Loan and Grant Totals:	\$23,385,492,697	177,387			
Section 521 Rental Assistance	\$837,053,728	190,697	\$837,053,735	100.0%	\$7
Section 542 Rural Housing Vouchers	\$13,192,485	3,842	\$9,493,807	139.0%	-\$3,698,678
Source : HAC Tabulations of RHS 205 Report Data, Appropriation Act Language, and RD NOFAs					
* FY 2013 Appropriation levels are estimated based on best information available. Actual funding may be different due to prior year carry over (grants only) or flexible funding authority (for example, the Farm Labor Housing funding can be transferred between loan and grant programs)					

The Housing Assistance Council (HAC) compiled these figures USDA supplied data on its rural housing loan and grant programs. Additional information can be found in HAC's comprehensive report: *USDA Rural Development Housing Programs: FY 2013 Year-End Report*.

<http://ruralhome.org/information-and-publications/rural-development-obligations/rd-obs/762-fy13-rd-year-end-report>

Contact Us

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FOR MORE INFORMATION ON THE ISSUE OF USDA RURAL HOUSING OBLIGATIONS

USDA Rural Development Obligations (Monthly)

<http://ruralhome.org/sct-information/usda-housing-program-data/rd-obs>

USDA Rural Development Historic Obligation Activity.

<http://ruralhome.org/sct-information/usda-housing-program-data/rd-annual-obs/189-historic-activity>

Map of Current USDA-RD Eligible Areas.

http://www.ruralhome.org/storage/rhs/rd_eligible_area_map.pdf

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