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USDA RURAL DEVELOPMENT HOUSING PROGRAMS

FY 2009 Year-End Report



Housing Assistance Council

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HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy analysis, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

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EXECUTIVE SUMMARY

Introduction

Since the 1950s, the United States Department of Agriculture has built or repaired millions of affordable homes for rural Americans primarily through its Rural Development agency (formerly the Farmer's Home Administration). In Fiscal Year 2009, Rural Development (RD) obligated approximately 19 billion which built, repaired, or supported over 350,000 units of affordable housing for low- and moderate-income families in rural areas.

The Housing Assistance Council (HAC) presents a review of USDA rural housing activity through a compendium of reports and analyses of the agency's rural housing efforts. The following report presents fiscal year utilization and activity of most USDA housing programs at the state and national level. These figures derive from HAC tabulations of USDA-RD 205c,d, and f report data. Additional data and information for the year-end report were also provided by USDA's Single Family and Multifamily Housing Divisions in the National Office.

USDA Rural Development

Rural Development (RD) is an agency in the U.S. Department of Agriculture (USDA). It operates a broad range of programs that were formerly administered by the Farmers Home Administration to support affordable housing and community development in rural areas. The RD National Office is located in Washington, D.C., and is responsible for setting policy, developing regulations, and performing oversight. In the field RD operations are carried out through the USDA's Rural Development offices. Rural Development State Offices administer programs in a state or multistate area. The organization of Rural Development offices within a state varies, but typically Area or District Offices supervise Local Offices (also termed county or community development offices) and do the processing and servicing of organizational loans and grants. Local Offices process single family housing applications, assist District Offices with organizational applications and servicing, and provide counseling to applicant families and backup servicing as needed.

RD SERVICE AREA

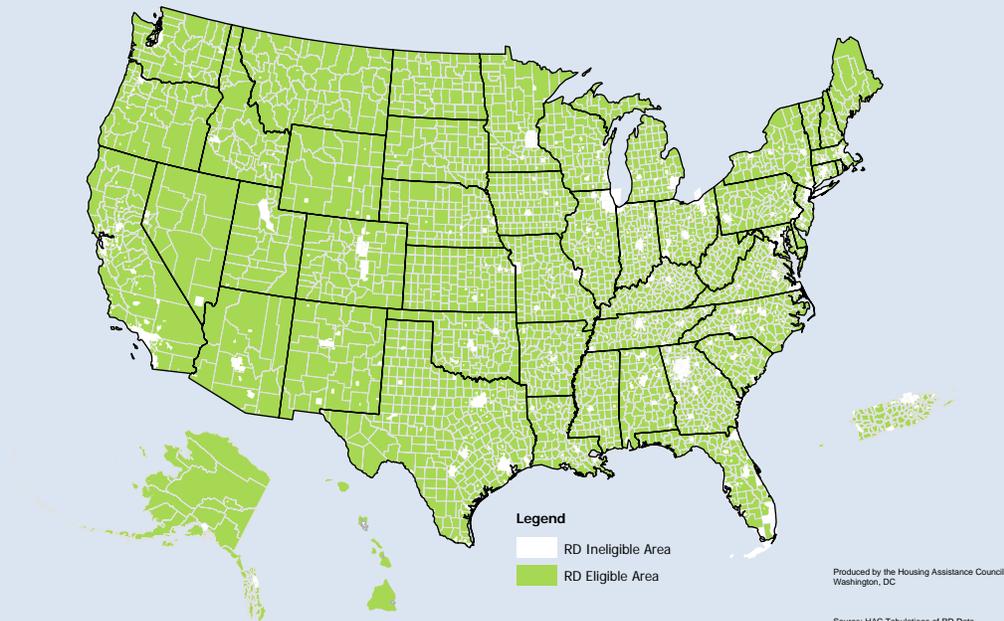
A number of government agencies and private sector organizations define rural using differing measures. The United States Department of Agriculture (USDA) utilizes a specific and often unique definition to establish "eligible areas" for its rural housing programs within its Rural Development agency.

RD rural housing programs are available to eligible applicants in:

1. open country that is not part of, or associated with, an urban area or
2. any town, village, city, or place, including a densely settled area, that
 - a. is not part of, or associated with, an urban area and has a population not in excess of 10,000 and is rural in character, or
 - b. has a population in excess of 10,000 but not in excess of 20,000 and is not contained within a Metropolitan Statistical Area (MSA) and has a serious lack of mortgage credit as determined by the Department of Agriculture and the Department of Housing and Urban Development.

Areas classified as rural or rural areas prior to October 1, 1990 and determined not rural as a result of the 1990 decennial Census will continue to be eligible if they have a population between 10,000 and 25,000, are rural in character, and have a serious lack of mortgage credit for low- and moderate-income families.

U.S. Department of Agriculture -- Rural Development Eligible Areas



SINGLE-FAMILY HOUSING PROGRAMS

While the recent subprime mortgage meltdown has contributed to a significant crisis in the housing market, it is important to remember that it is possible to provide nonprime lending in a way that meets rigorous lending criteria and produces sustainable homeownership for low-income borrowers. USDA supports the purchase, finance, development, and rehabilitation of single-family housing in rural areas. The flagship of USDA's single-family housing efforts is the Section 502 Homeownership Loan Program. The Section 502 program provides both direct and guaranteed mortgage assistance for low- and moderate-income households. USDA RD also supports a mutual "self-help" housing program in which families perform a substantial amount of construction labor on their own homes to help reduce costs. Home repair and rehabilitation activity is primarily supported through RD's Section 504 program. Through Section 504, RD makes loans and grants available to very low-income households for repair and rehabilitation of substandard housing conditions. Some highlights from single-family housing programs and obligations are detailed below.

Single-family Housing Activity Boosted by Stimulus Funding. USDA's Section 502 Homeownership programs were funded under the 2009 American Recovery and Reinvestment Act (ARRA). The Section 502 Guaranteed program was obligated \$11 billion in ARRA funding, while the Direct program received \$1 billion under the stimulus. The recent disappearance of subprime mortgage lending in private markets has increased demand for alternative nonprime mortgage products. ARRA funding has helped supplement the Section 502 program's increased activity, lending over \$9 billion to finance more than 75,000 affordable homes in FY 2009. The vast majority of USDA ARRA loans were financed through the guaranteed program.

Section 502 Loan Guarantees Dominate RD Lending Activity. In recent years, the Section 502 Homeownership Loan Program has experienced a dramatic shift away from direct lending in favor of loan guarantees. In the last fiscal year, approximately 92 percent of Section 502 dollars were obligated under the guaranteed program. In FY 2009 over 133,000 homeownership loans were guaranteed totaling \$17.6 billion. In contrast, only 12,150 direct homeownership loans were made equaling \$1.2 billion (from both regular and ARRA funding).

Fewer Direct Loans for Very-Low Income Households. By statute, at least 40 percent of Section 502 direct lending must be set aside for very low-income borrowers (i.e., households with incomes less than 50 percent of area median income). In recent years, however, RD has had increasing difficulty reaching this 40 percent target. The number of direct loans for very low-income households has declined in recent years. In FY 2004, 54 percent of Section 502 direct loan dollars were obligated to very low income households. However, in FY2009 only 40 percent of direct loan dollars went to very low-income households. An array of factors are likely contributing to the decline in very low-income loan activity including reduced demand in an economic downturn, programmatic changes, debt burdened applicants and increasing housing costs. While rural housing prices have not experienced the dramatic price changes that have occurred in other markets, there has been a significant increase in the cost of homes purchased through the Section 502 program over the past few years.

MULTIFAMILY HOUSING PROGRAMS

The predominance of homeownership in many rural areas has overshadowed the importance of the rental housing stock and the needs of rural renters. Rural rental 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 the agency's efforts to serve the poorest of the rural poor for the past 45 years. The loss of this rental housing stock has become a major concern in recent years. 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 multifamily housing efforts.

New Section 515 Rental Housing Construction Nearly Nonexistent. The Section 515 program provides mortgage loans to develop rental housing for very low-, low- and moderate-income households. Since the program's inception in 1963, Section 515 has produced thousands of housing developments containing more than half a million rental homes that are affordable for low-income rural residents. However USDA's lending activity to construct new rental housing is virtually nonexistent compared to previous years. In FY 2009, only 26 Section 515 Multifamily Housing loans were made, constructing just 743 new units of rental housing. The vast majority of the FY2009 Section 515 allocation was used for repair and rehabilitation of the existing Section 515 stock. Approximately \$45.8 million or two-thirds of the total Section 515 obligation went for repair and rehabilitation in FY 2009.

Rental Assistance Outlays Increase Precipitously. Costs under the Section 521 Rental Assistance (RA) program have risen significantly over the last few years. As housing costs increased, RA contract lengths were shortened to reduce the appropriations needed each year. In FY 2007, contracts were shortened further, most to two years and some to one year. Beginning in 2008 all RA contracts issued are for one year. In FY 2009 the contracts issued in 2005, 2007, and 2008 all required renewal at a cost at just over \$900 billion. In total 210,451 units received Rental Assistance in FY 2009.

Guaranteed Multifamily Housing Loans Eclipse Section 515 Production. The Section 538 Guaranteed Rural Rental Housing program enables RD to guarantee loans made by private lenders for the development of affordable rural rental housing. Section 538 differs from the Section 515 program where USDA lends directly to nonprofit or for profit developers. In FY 2009 Section 538 loan guarantees developed 2,248 new units of rental housing which is three times the number of new units produced under the Section 515 program in the same year.

Multifamily Housing Vouchers Concentrated. USDA issued approximately 2,055 tenant 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 37 states, with nearly 40 percent of them issued in just three states -- Florida, Iowa, and Missouri.

I. Summary of USDA Rural Housing Obligations



USDA Rural Housing Obligations FY2009, Year End Totals(a)

Program Obligated	Obligation	Loans/Grants
502 Direct Loans	\$1,188,734,908	10,120
ARRA 502 Direct Loans (b)	\$267,124,147	2,030
502 Guaranteed Loans	\$7,175,728,079	59,697
ARRA 502 Guaranteed Loans (b)	\$9,039,510,700	73,348
306 Waste & Water Disposal Grants	\$297,554	81
504 Repair Loans	\$27,024,080	4,670
504 Repair Grants	\$36,400,125	6,476
509(c) Compensation for Const. Defects	\$32,922	5
509/525 Technical Assistance Grants	\$0	0
514 Farm Labor Housing Loans	\$34,529,669	48
515 Rental Housing Loans	\$67,889,993	107
516 Farm Labor Housing Grants	\$14,955,440	8
521 Rental Assistance	\$902,072,317	*210,451
523 Mutual and Self-Help Housing Grants	\$31,038,143	89
523 Self-Help Site Loans	\$0	0
524 Site Loans	\$599,190	3
533 Housing Preservation Grants	\$10,440,417	163
538 Guaranteed Rental Housing	\$132,514,564	86
SFH & MFH Credit Sales	\$2,479,793	9
542 Rural Housing Vouchers	\$6,438,249	2,055
Multifamily Housing Pres. & Revitalization -MPR	\$68,650,986	152
TOTALS:*	\$19,006,461,276	159,147

(a) 100 Percent of fiscal year completed

(b) Obligated under the American Recovery and Reinvestment Act

* Loan/Grant Totals do not include Rental Assistance units