

USDA RURAL HOUSING PROGRAMS: FY 2008 EXECUTIVE SUMMARY

The Housing Assistance Council (HAC) presents a review of USDA rural housing activity in its annual publication, *USDA Rural Development Housing Programs: FY 2008 Year-End Report*. 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 2008, Rural Development (RD) obligated approximately \$8.9 billion which built, repaired, or supported over 200,000 units of affordable housing for low- and moderate-income families in rural areas. Some of the highlights of USDA's FY 2008 housing activities include the following.

SINGLE-FAMILY HOUSING PROGRAMS

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.

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 86 percent of Section 502 dollars were obligated under the guaranteed program. In FY 2008 over 60,000 homeownership loans were guaranteed totaling \$6.8 billion. In contrast, only 10,179 direct homeownership loans were made equaling \$1.1 billion. This constitutes the lowest number of direct loans made since 1961.

Guaranteed Program Serves Substantially Higher Incomes than Direct Loans. One of the primary differences between the Section 502 Guaranteed and Direct Loans is the income level that each program serves. The direct loan product serves low-income households at or below 80 percent of the area median income, while the guarantee program can serve moderate- income households with incomes as high as 120 percent of the area median. In FY 2008 the average annual borrower income was substantially higher in the guaranteed program at \$43,319, compared to an average income of \$25,447 for direct loans.

RD Loan Delinquency and Foreclosure on the Rise. Similar to national trends, the RD Section 502 loan portfolio experienced increases in both delinquencies and foreclosures in FY 2008. At the end of the fiscal year, approximately 17.5 percent of single-family direct loans were more than 30 days delinquent, and nearly 4 percent of the direct loan portfolio was in foreclosure. Despite increases in problem loans, the overall foreclosure rate among RD loans is lower than comparable portfolios such as the Federal Housing Administration (FHA).

Mutual Self-Help Program Most Active in the West. In FY 2008, Section 502 Mutual Self-Help housing loans were made in 37 states and the West Pacific Territories. This loan product is most popular in the Western region of the United States. In FY 2008, over 60 percent of the 1,205 self-help loans were made in Western states.

Fewer Direct Loans For Very-Low Income Households. USDA lending guidelines mandate 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). Unofficially, RD establishes a goal of making half of its direct loans to very low-income households. The number of direct loans for very low-income households has declined in recent years. In FY 2008, 43 percent of direct loans went to very low-income households

Manufactured Housing Loans Increase Slightly, But Still a Small Segment of the Single-Family Portfolio. The number of manufactured homes financed with Section 502 homeownership loans continued to increase slightly. In FY 2008, 644 manufactured homes were financed with Section 502 loans. Yet manufactured housing comprised only 2 percent of direct loans, and less than 1 percent of guaranteed loans in FY 2008.

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 Section 515 program provides mortgage loans to develop rental housing for very low-, low- and moderate-income households. 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 Multifamily Construction Nearly Nonexistent. Continuing the trend of the past few years, RD lending activity to construct new rental housing was virtually nonexistent. In FY 2008, only 23 Section 515 Multifamily Housing loans were made, constructing just 805 new units of rental housing.

Majority of Section 515 Funds Used for Rehabilitation of Existing Stock. The vast majority of the FY2008 Section 515 allocation was used for repair and rehabilitation of the existing Section 515 portfolio. Approximately \$47.6 million was obligated for repair and rehabilitation of over 100 Section 515 properties in FY 2008.

Prepayment Provisions Impact Affordable Rental Housing Stock. An important issue surrounding the USDA Section 515 rental housing program is prepayment. A significant portion of the projects in the Section 515 Rural Rental Housing portfolio is at risk of being lost as low-income housing. Under current law, owners of projects that received loans prior to 1989 can request prepayment of the loan balances and convert the projects to market rate housing. As of recent estimates approximately 7,372 Section 515 properties (encompassing over 195,000 units) are eligible to prepay. In FY 2008, 103 Section 515 loans were prepaid. These prepaid properties included 1,877 rental housing units. Between 2001 and 2008 roughly 880 Section 515 properties, encompassing 14,391 rental units, prepaid their loans.

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. All RA contracts issued in FY 2008 were for one year. In total 121,568 units received Rental Assistance in FY 2008 at a cost of roughly \$479 billion. Looking forward, in FY 2009 the contracts issued in 2005, 2007, and 2008 will need to be renewed at a cost of nearly \$1 billion.

Multifamily Housing Vouchers Concentrated. USDA issued approximately 2,041 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 more than 40 percent of them issued in Florida, Iowa, and Missouri.