

Meeting the Housing Needs of Rural Residents: Results of the 1998 Survey of USDA's Single Family Direct Loan Housing Program

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Abstract

USDA's Section 502 Single Family Direct Loan Housing Program provides subsidized housing loans to low- and moderate-income rural residents who do not own adequate housing and cannot obtain a home mortgage from other sources. Typical recent borrowers from the program are under 40, have children, have low or modest incomes, have a home that is better than their previous residence, and are satisfied with their current home, neighborhood, and the Section 502 program. Most believed that, without assistance from the program, they would have been unable to afford a comparable home for at least 2 years and possibly never. These findings are based on a national survey of 3,027 recent Section 502 borrowers, conducted by the Economic Research Service at the request of USDA's Rural Development mission area. The survey identified borrower characteristics and addressed issues of program effectiveness and performance. This report compares the survey's findings with similar information for other low- to moderate-income rural residents and provides a separate analysis of program participation by elderly, single-parent, disabled, Hispanic, and black households.

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Summary

This report summarizes the results of the 1998 Survey of USDA's (Section 502) Single Family Direct Loan Housing Program. This survey was conducted by the Economic Research Service, in cooperation with the Social and Economic Sciences Research Center at Washington State University, at the request of USDA's Rural Development mission area. The national survey collected information from 3,027 recent participants in the Section 502 rural housing loan program whose loans closed between 1994 and 1998. This survey marks the first time that a nationally representative survey of USDA's rural home loan program participants has been conducted. Changes in Section 502 program requirements, operation, costs, and funding levels have led to renewed interest in the characteristics of the low-income residents who benefit from these program outlays, and the effectiveness of this program for improving the housing and economic status of rural residents. This report addresses several questions:

Who Benefits? Compared with other groups of low-income rural residents, the Section 502 program serves a larger than proportionate share of single-parent households and young households with borrowers under the age of 40. In contrast, rural married couples without children and elderly households are less likely to participate in the program. Also, disproportionate shares of Hispanics and blacks participate in the program compared with their representation among low-income rural residents; although still comprising the majority of program participants, white households are less represented among the Section 502 borrowers. The largest proportion of borrowers live in the South, followed by the Midwest, West, and the Northeast. The average household income of program participants was \$20,949 in 1997, and almost 90 percent of Section 502 households received income from wage and salary employment. Borrowers have little reliance on income support from other Federal low-income assistance programs. Relatively small proportions participate in other Federal safety net programs, such as Temporary Assistance to Needy Families, Supplemental Security Income, and general assistance, although one-fifth received food stamps at some time during the previous year.

What Are the Benefits of Program Participation? Section 502 direct subsidized homeownership loans are made to very-low-income and low-income rural families who do not own adequate housing and cannot obtain mortgage financing from other sources. The typical Section 502-financed home was a detached single-family dwelling, about 6 years old, with three bedrooms and one bathroom, and a median purchase price of \$64,900. The Section 502 program provided an opportunity for many first-time homebuyers to purchase a home they might not otherwise have been able to afford. An important indicator of program success is the finding that 90 percent of borrowers said that without the Section 502 program it would have taken longer than 2 years for them to have been able to buy a comparable home, if they could ever have done so.

The Section 502 program is a particularly important program for first-time homebuyers. Almost three-fourths of program participants had never owned

a home before, and most had been renting their homes prior to financing a home through Rural Development. About 25 percent of program participants had at some time in the past received government rental assistance; about 7 percent of recent borrowers had received rental assistance from Rural Development in the past. Participants used these rental assistance programs as a stepping stone toward more economic stability and eventual homeownership, a major program goal for Rural Development.

Large proportions of Section 502 borrowers were highly satisfied with the appearance, construction quality, and size of their homes, although borrowers consistently gave lower satisfaction ratings to the quality of construction in their homes than to other features. Almost equal proportions reported high levels of satisfaction with neighborhood conditions such as quality of schools and public services, convenience to services, safety and security, and neighborhood appearance. Nearly all borrowers noted the improvement in the quality of their current home and neighborhood over their previous residence and community. While a substantial proportion indicated that their housing costs had increased with the purchase of their home, many also reported an increase in income. Also, borrowers estimated the appreciation in housing value at about 8 percent since purchasing their homes, consistent with the current national trend in housing values.

How Satisfied Are Borrowers with the Program? More than two-thirds of all recent Section 502 borrowers indicated high levels of satisfaction with the process of buying and financing their homes through Rural Development, and even higher proportions rated their current dealings with Rural Development as good or very good. Only 11 percent rated their experiences with the program and Rural Development as poor or very poor. When borrowers expressed dissatisfaction through open-ended questions, their comments most often fell into three broad categories: (1) difficulties with contractors and disappointment with Rural Development's response to complaints; (2) trouble understanding the details of program operation, particularly annual income evaluations and payment of insurance and taxes; and (3) problems reaching the Rural Development central office to express their complaints. Despite some dissatisfaction with the program, 97 percent of recent borrowers said they would recommend Rural Development to a family member or friend interested in homeownership.