

Meeting the Housing Needs of Rural Residents

Results of the 1998 Survey of USDA's Single Family Direct Loan Housing Program

James J. Mikesell, Linda M. Ghelfi, Priscilla Salant,
George Wallace, and Leslie A. Whitener

Introduction

Many rural areas have grown both economically and in population during the 1990's (Cook, 1999). New settlement patterns showing increased metro-to-non-metro migration have raised questions about the adequacy of existing housing and amenities to meet this population and employment growth. In many rural communities, increased demands for water, sewerage, and other economic and social services have strained local resources. Despite improvements in housing quality and a narrowing of the rural-urban gap in housing conditions over time, issues related to both housing adequacy and affordability continue to affect a substantial number of rural households (Mikesell, 1999; Housing Assistance Council, 1997; Whitener, 1998). In 1995, 1.6 million nonmetropolitan households lived in housing classified as substandard, and substantial proportions of both nonmetro and metro households were burdened by high housing costs that exceeded 30 percent of their income (Whitener,

1999). These conditions bring continued attention to the operation and effectiveness of Federal rural housing programs designed to assist low-income rural residents to obtain adequate and affordable housing.

Government policy recognizes housing as a basic need and homeownership as a desirable goal. Federal housing programs have played a critical role in advancing homeownership as the preferred housing alternative for most Americans (Mitchell, 1985). The Rural Housing Service (RHS), formerly the Farmers Home Administration and now part of USDA's Rural Development mission area, operates a broad range of programs to promote and support affordable housing development in rural areas. Under its Section 502 Single Family Direct Loan Housing Program, RHS offers subsidized homeownership loans to low-income rural families who are without adequate housing and cannot obtain credit from other sources. Today over 600,000 rural borrowers participate in the program. For over 50 years, USDA programs have provided home mortgages to low-income rural families, undoubtedly contributing to higher levels of homeownership in rural communities. In contrast, Federal housing assistance programs directed toward low-income urban families have historically focused

Linda Ghelfi, James Mikesell, and George Wallace are economists and Leslie Whitener is a sociologist with the Food and Rural Economics Division, ERS. Priscilla Salant is an agricultural economist with Washington State University.

more on rental assistance than on promotion of homeownership (Mikesell, 1998).

Recent changes in Federal housing programs, including those operated by the USDA, have generally added flexibility, increased the roles of State and local governments, and emphasized the inclusion of segments of the population and geographic areas that were deemed underserved by existing housing and home mortgage markets (Mikesell, 1998). Changes in the Section 502 program requirements, operation, costs, and funding levels over the last few years have led to renewed interest in (1) the characteristics of the low-income residents who benefit from these program outlays, and (2) the effectiveness of this program for improving the housing and economic status of rural residents.

At the request of the USDA's Rural Development mission area, the Economic Research Service (ERS), in cooperation with the Social and Economic Sciences Research Center at Washington State University, conducted the 1998 Survey of USDA's Single Family Direct Loan Housing Program to address those issues. The survey was designed to provide detailed information on the characteristics of recent participants in USDA's Section 502 Direct Loan Program that would help assess the impact of this housing-assistance program on rural residents and their communities. No other Federal data sources, including USDA administrative data, the decennial Census of Population and Housing, or the biennial American Housing Survey, are sufficiently detailed to allow a national level, in-depth analysis of the characteristics, needs, and concerns of participants in the Section 502 program. This survey marks the first time that a nationally representative survey of Section 502 participants has been conducted. Findings from this study will provide Rural Development and other rural policymakers at the Federal, State, and local level with information critical for developing and assessing housing policies and programs designed to ensure that adequate and affordable housing is available to low-income rural residents.

This report summarizes the results of the 1998 survey. It explores the characteristics of program participants and assesses measures of program effectiveness to provide a better understanding of program operation. Analysis focuses on special-interest popu-

lation groups, such as elderly, single-parent, disabled, and racial/ethnic minority households, to assess how well the Section 502 program is meeting the housing needs of these program participants. Appendix A includes a brief description of the survey design and reliability of estimates. Appendix B includes detailed tables reporting the demographic, economic, and housing characteristics of selected target groups of program participants and participants in the four Census regions. More in-depth analysis of the data will be presented in a forthcoming series of ERS policy reports.

The Section 502 Single Family Direct Loan Housing Program

The earliest housing programs in the 1930's and 1940's were created "against a backdrop of long-standing concern for the poor housing conditions spawned by industrial cities" (Mitchell, 1985:5). In later years, such programs were fueled by increasing concern over the aging and depopulation of central cities and the growth of urban slums. USDA housing programs originally evolved from the inability of Federal and State governments to provide housing finance in very small rural communities and open country (Collings, 1995). With the passage of the Housing Act of 1949, and the expansion under the Housing Act of 1961, USDA, through its Farmers Home Administration (FmHA), began operating programs to help promote and support affordable housing development in rural areas (Mikesell, 1977). The original mission was to finance modest housing or housing repair for families who were unable to do so with their own resources or were unable to obtain other credit at affordable rates and terms. FmHA was to be the lender of last resort.

Today, most Federal direct mortgage lending to rural areas is done through USDA's Section 502 Single Family Direct Loan Program, currently under the auspices of the Rural Housing Service under USDA's Rural Development mission area (Mikesell, 1998). Although the U.S. Department of Housing and Urban Development (HUD) provides home mortgage assistance to both urban and rural areas through its Federal Housing Administration's (FHA) single-family home mortgage insurance program, only 6 percent of the amount insured in fiscal year 1997 was in non-metro areas (Mikesell, 1998). HUD currently has no

direct loan programs comparable to the Section 502 low-interest homeownership program, and this program is the only Federal mortgage program targeted to low-income rural residents who otherwise could not afford to be homeowners.

Section 502 direct subsidized homeownership loans are made to very-low-income and low-income rural families who are without adequate housing and cannot obtain mortgage financing from other sources. Low-income families are defined as those with adjusted incomes under HUD's applicable low-income limit, usually 80 percent of the median income of the local area, and very-low-income families have adjusted incomes under 50 percent of the median income of the area. Loans can be used to build, repair, renovate, or relocate a home, or to purchase and prepare sites, including providing water and sewer facilities. They may also be used to refinance debts when necessary to avoid losing a home or when required to make necessary rehabilitation of a house affordable. The program provides subsidized loans with effective interest rates as low as 1 percent.

Concessionary interest rates and terms are meant to make homeownership affordable. The term of the loan is usually 33 years (38 for those with incomes below 50 percent of the area median income and who cannot afford 33-year terms), no down payment is required, and closing costs can be financed in the mortgage. Interest rates are subsidized, but for most borrowers the payment amount is determined by their income level rather than by the interest rate. Housing must be modest in size, design, and cost. Modest housing is defined as housing costing less than the HUD dollar cap, which in 1997 was \$81,548, with adjustments for high-cost areas.

RHS provides assistance in rural portions of both nonmetro and metro counties. Eligible areas are defined as open country and rural places under 20,000 population or under 10,000 population in a Metropolitan Statistical Area (MSA). During its 50-year history, the Single Family Direct Loan Housing Program has provided over \$51 billion in homeownership loans to some 1.9 million borrowers. The program currently serves more than 500,000 low-income rural borrowers nationwide. The Section 502 direct loan program is RHS's second largest budget outlay and provided a total loan amount of \$1 billion for 16,000 loans in 1998.

RHS offices located in Washington, DC, are responsible for setting policy and developing regulations for the Section 502 programs. In the field, RHS operations are carried out through USDA's Rural Development offices. State offices administer programs within a State or in multi-state areas. Area offices provide administrative supervision for local offices and process and service loan and grant applications. Local offices often serve multiple counties. They receive and process single-family housing applications and provide counseling and supervision to RHS single-family borrowers. Loans are serviced through the Centralized Service Center in St. Louis, MO.

Study Objectives

The primary objective of this report is to develop an information base on recent Section 502 program participants to help assess how well this USDA housing assistance program is serving the population and housing needs of rural areas. Since the Section 502 program was enacted, changes in program requirements, operation, costs, and funding levels have led to increased 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. The analysis provided here will supplement administrative data collected by the Rural Housing Service which is critical for assessing program operation and performance. In specific, the study addresses four sets of questions:

- Who are the Section 502 program participants? How do they benefit from program participation?
- How do program participants fare compared with other low-income rural residents in terms of their demographic composition, economic well-being, housing characteristics and costs, and housing/neighborhood satisfaction?
- Is program participation associated with improvements in housing for rural program participants? Is this program adequately serving these target groups?
- How satisfied are borrowers with the operation of the program and their Rural Development financing experiences? What factors affect varying levels of satisfaction?