# Characteristics of Recent Program Participants

What are the characteristics of recent Section 502 program participants, and how do they benefit from program participation? To address these questions, we examined the demographic characteristics, economic well-being, and housing conditions of recent Section 502 borrowers.

## Who Are They and Where Do They Live?

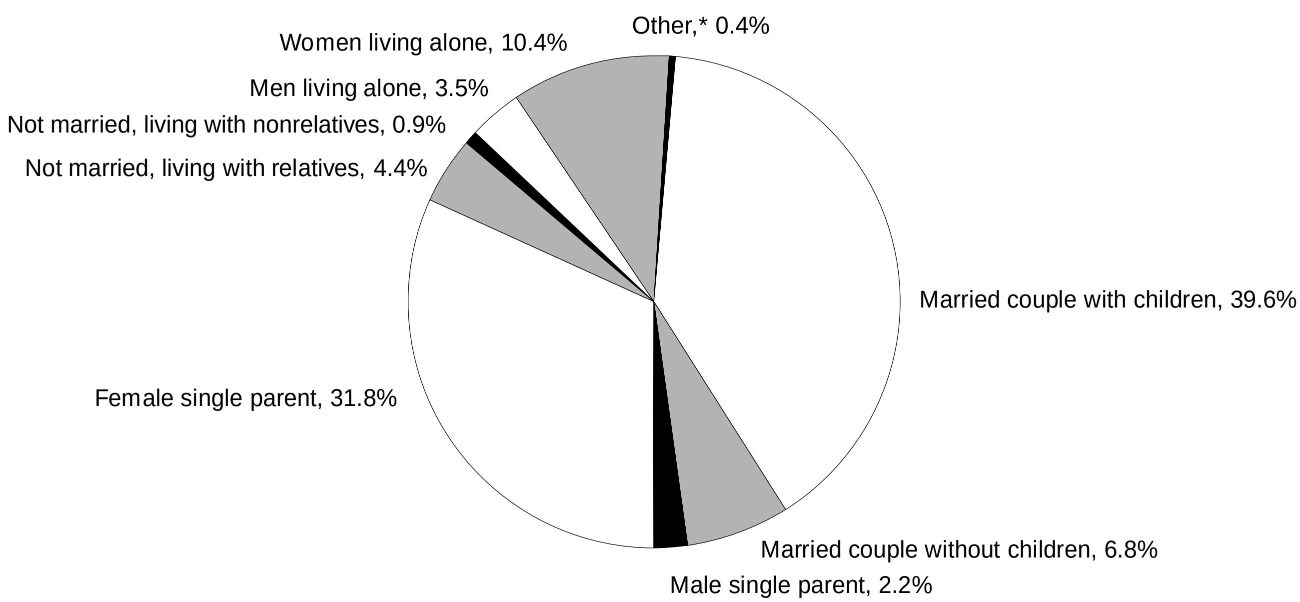
***Household Composition:*** Households of Section 502 borrowers are of predominantly two types—married couples and female single parents, both with children under 18 years old. These household types account for 71 percent of households (fig. 1). Women living alone are another 10 percent and married couples without young children account for 7 percent.

Single parents, especially those who rely on alimony for a large share of their income, may have difficulty obtaining commercial mortgages. With single parents comprising a third of the borrowers, the Section 502 direct loan program appears to be useful in providing them with the opportunity to own a home. However, some of the single parents undoubtedly obtained their loans while married and have since been divorced, separated, or widowed.

***Age:*** Respondents were predominantly under 40 years old (fig. 2). Twenty-eight percent are under 30, and the largest share (37 percent) fall in the 30 to 39 age group. The number of respondents drops off at age 50, and only 6 percent are in the 62 and older group. When ages of all borrowers in the household are considered, 7 percent of the borrower households have at least one person on the mortgage age 62 and older.

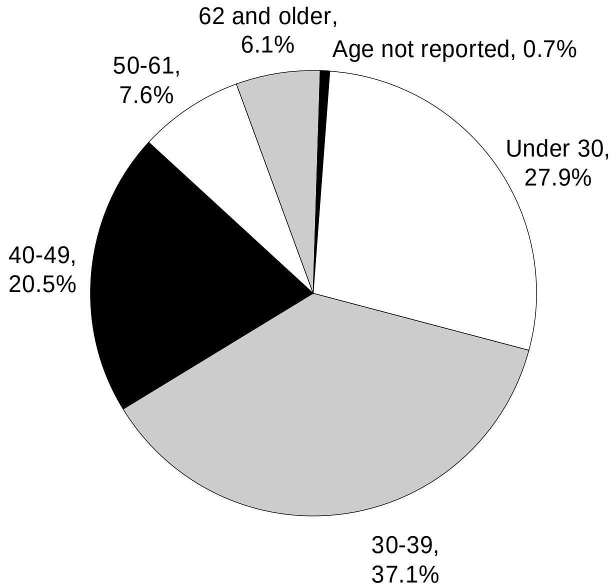
A younger age distribution might be expected among recent participants in a home mortgage program of last resort. Household income tends to increase as the age and work experience of borrowers increase. Younger households are more likely than older households to need the 502 program for assistance in obtaining their first house. The needs of the small group of elderly households participating in the pro-

**Figure 1--Compostion of borrower households**




*Other includes households that did not report number of members and/or their relationships to the respondent.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

**Figure 2--Age of borrower**




Note: Age is of the borrower who answered the survey.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

**Table 2—Section 502 households by disability status of members**

| Disability status | Number | Percent |
|---|---|---|
| No one disabled | 2,566 | 84.8 |
| One or more members disabled | 452 | 14.9 |
| Not reported | 9 | 0.3 |

Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

**Table 3—Race and ethnicity of Section 502 borrowers**

| Ethnicity and race | Number | Percent |
|---|---|---|
| Non-Hispanic: | | |
| Black | 382 | 12.6 |
| White | 2,136 | 70.6 |
| Other | 119 | 3.9 |
| American Indian or Alaskan Native | 35 | 1.2 |
| Asian or Pacific Islander | 19 | 0.6 |
| Hispanic | 361 | 11.9 |
| Not reported | 29 | 1.0 |

Note: Race and ethnicity is of the borrower who answered the survey. In married-couple households, the respondent was more often the wife than the husband.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

gram are important, however, because the program may offer them an affordable way out of substandard homes. Almost 90 percent of Section 502 elderly households with at least one person 62 years and older on the mortgage reported that the quality of their Section 502-financed home was better than that of their previous home.

***Disabilities:*** Households with disabled members may have a harder time buying a home for several reasons. Those reasons may include: a disability that keeps an adult from working and contributing to household income, a member's disability's requiring another household member's assistance to the extent that it also keeps the other member from working, or the physical layout of a house that must include ramps, wider doorways, or other modifications that would put the cost of the house above what the household can afford. Fifteen percent of borrowers said that they and/or another member of the household had a disability that "seriously limits their major activities such as getting around, working, or taking care of themselves" (table 2).

***Race and Ethnicity:*** Homeownership is much lower among black and Hispanic households than among white households.[3] Many minority households have low incomes that may restrict their access to credit, and lack of sufficient funds for a down payment is frequently the biggest hurdle in obtaining a home mortgage. Poor credit history may also be a problem, and some may face racial discrimination or other unfair practices, such as lender avoidance of the neighborhoods in which they could afford to buy a home. Among borrowers, 13 percent were black, and 12 percent were Hispanic (table 3). Blacks and Hispanics are two of the groups analyzed in more detail in the target groups section below. Native Americans also face many of the same hurdles to

[3] Race and ethnicity of borrower refers to three mutually exclusive groups based on responses to questions about Hispanic or Latino heritage and race. Data reported here refer to categories of Hispanic, white non-Hispanic, and black non-Hispanic.

**Table 4–Income of Section 502 households**

| Income group | Households | Share of households reporting |
|---|---|---|
| | *Number* | *Percent* |
| Less than $10,000 | 228 | 9.1 |
| $10,000 to 14,999 | 432 | 17.2 |
| $15,000 to 19,999 | 600 | 23.8 |
| $20,000 to 24,999 | 517 | 20.5 |
| $25,000 to 29,999 | 308 | 12.2 |
| $30,000 to 34,999 | 206 | 8.2 |
| $35,000 to 39,999 | 100 | 4.0 |
| $40,000 or more | 125 | 5.0 |
| Households reporting income | 2,516 | 100.0 |
| Households not reporting income | 511 | NA |
| Total households | 3,027 | NA |

NA=not applicable.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

homeownership as other minorities, but there were too few of them (less than 1.5 percent) in the survey to analyze as a separate target group.

***Household Income:*** The average household income of borrowers was $20,949 in 1997. Seventy-four percent of the Section 502 households reported annual incomes in the $10,000 to $29,999 range (table 4). Another 9 percent reported less than $10,000 in income, and the remaining 17 percent had incomes of $30,000 and over. These higher household incomes are likely the result of improvements in the economic position of the household since the loan was obtained. Even higher incomes may be described as low or moderate after taking household size into consideration. The vast majority of households' incomes were low or moderate, the range of income levels the Section 502 program is designed to serve.

Households generally received more than one source of income, but over 87 percent received some wage and salary income during 1997 (table 5). Other major sources included alimony or child support, reported by 23 percent of households, reflecting the large share of single parents with children among the borrower households. Social security and retirement,

**Table 5—Types of income received by Section 502 households**

| Type of income | Households[1] | Share of households reporting income[2] |
|---|---|---|
| | *Number* | *Percent* |
| Wages or salaries | 2,645 | 87.7 |
| Net income from a farm or other self-employed business | 139 | 4.6 |
| Social security and/or other retirement income | 392 | 13.0 |
| Interest and dividends | 398 | 13.2 |
| Aid to Families with Dependent Children | 118 | 3.9 |
| Supplemental Security Income | 272 | 9.0 |
| Food stamps[3] | 544 | 18.2 |
| Other public assistance | 61 | 2.0 |
| Alimony or child support | 687 | 22.7 |
| Workers' compensation | 48 | 1.6 |
| Veterans' benefits | 49 | 1.6 |
| Unemployment benefits | 260 | 8.6 |
| Disability income | 121 | 4.0 |
| Survivors' benefits | 42 | 1.4 |
| Other income | 44 | 1.5 |

[1] Nearly all households, even most of those that would not report amounts of income, were willing to tell the enumerators which sources of income they received. The numbers of survey households reporting whether or not they received each income source vary but are all close to the 3,027 full sample, many more than the 2,516 who reported the total amount of household income (shown in table 4).
[2] Households could report more than one source of income, so percentages do not add to 100 percent.
[3] Food stamps are not considered cash income, but are included to show all the sources of public assistance that the respondents were asked about.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

and interest and dividend income were each received by 13 percent of the households.

Public assistance was most often received in the form of food stamps—18 percent of households reported someone in their household had received food stamps for at least a month during the year. Food stamps are restricted to households with income (adjusted for several factors) that is below 130 percent of the poverty threshold. This requirement suggests that almost one-fifth of the Section 502 households had very low incomes for at least 1 month out of the year.

Supplemental Security Income for the aged, blind, or disabled was received by 9 percent of households. Aid to Families with Dependent Children (AFDC), more recently replaced by Temporary Assistance to Needy Families (TANF), was reported by 4 percent of households. With so many of the single-parent households receiving alimony or child support and nearly all of them working during the year, it appears that few were forced to rely on AFDC for support.

Unemployment benefits are the only other source of income reported by even a modest proportion of households–9 percent. Other sources were reported by less than 5 percent of the households.

***Region:*** Recent 502 borrowers are concentrated in the South (43 percent), with 25 percent in the Midwest, 21 percent in the West, and 11 percent in the Northeast (app. table B11).[4] Based on 1990 metro-nonmetro designations, 43 percent of borrowers are in metro counties and 57 percent are in nonmetro counties. In addition, 47 percent of households are in counties that contain difficult-development Census blocks designated by the Department of Housing and Urban Development in 1999.[5] Whether the households are inside the Difficult Development Areas cannot be determined, but location within such counties suggests that such households may face higher housing costs and have more need for programs of last resort, such as the Section 502 Program.

## What Are Their Current Housing and Neighborhood Conditions?

***Housing Structure and Costs:*** Housing financed with Section 502 loans must be modest in size, design, and cost. Modest housing is defined as housing costing less than the HUD dollar cap, which varies by year but was $81,548 in 1997, with adjustments for high-cost areas. The typical Section 502-financed home was a detached single-family dwelling, about 6 years in age, with 5-6 rooms including 3 bedrooms, generally conforming to program specifications for modest homes (app. table B3). The median cost of homes financed between 1994 and 1998 was $64,900, with almost 90 percent of housing costing less than $90,000 (app. table B9). More specifically:

- The vast majority (91 percent) of recent borrowers lived in detached, single-family homes. Seven percent lived in manufactured homes, while 2 percent resided in attached structures such as town homes and rowhouses.

- The median age of Section 502-financed homes was 6 years, meaning half were built in 1992 or earlier and the other half were built during or after that year. About 47 percent were newly constructed units—built between 1994 and 1998. About 10 percent were more than 35 years old.

- Most Section 502 homes were 3-bedroom homes with at least one full bathroom. Just 3 percent of owners maintained households that were considered crowded, having more than 1 person per room.

- Almost half of the homes used electricity as the main source of heat, and another 41 percent used piped or bottled gas. The remaining 12 percent relied on some other means, such as fuel oil or wood. The principal fuel used is mainly determined by the geographic location. Forty-four percent of recent borrowers were in the South, where nearly three-fourths of the homes were heated by electricity.

- Section 502 housing financed between 1994 and 1998 had a median cost of $64,900. However, purchase prices varied by region, ranging from a median of $79,850 in the Northeast to $55,000 in the South.

[4] The States in each Census region are as follows: Northeast–CT, ME, MA, NH, NJ, NY, PA, RI, and VT; Midwest–IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, and WI; South–AL, AR, DE, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, and WV; West–AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, and WY.

[5] Difficult Development Area (DDA) designations identify areas with severe housing cost problems using the ratio of fair market rent to median family income, recalculated annually, as an indicator of problems. Twenty percent of metro and nonmetro areas are designated as DDAs having severe housing cost problems. Residents of these areas receive special tax benefits, including the Low-Income Housing Tax Credit.

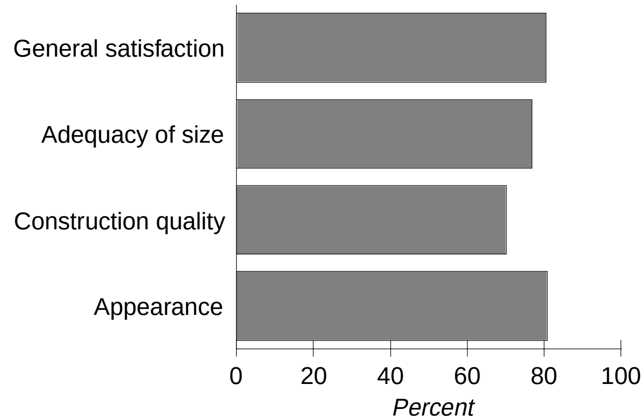
■ Borrowers estimated the median value of their homes at the time of the survey to be about $72,000, suggesting an appreciation of about 8 percent since purchasing their homes. Expected appreciation varied little by region, although respondents in the Northeast estimated appreciation at half (4 percent) that of the Midwest and South.[6]

■ Borrowers spent a median of $370 each month for housing costs (including principal, interest, real estate taxes, and property insurance). These housing costs comprised, on average, about 23 percent of borrowers' monthly household income, before adjustments to income allowed by the program. These proportions were similar across all regions, ranging from 22 percent in the South and Midwest to 24 percent in the Northeast and West.

***Housing Quality:*** In general, recent Section 502 borrowers were satisfied with their homes. Borrowers were asked to rank their overall satisfaction with their current home as a structure in which to live based on a scale of 1 to 10, with 10 being the best. About 80 percent reported high satisfaction measured by scores of 8, 9, or 10 (fig. 3).[7] Almost 40 percent categorized their home as a 10.

In addition, borrowers were asked to evaluate specific individual features of their current home including exterior appearance, construction quality, and adequacy of size. Eight of ten borrowers classed the exterior appearance and adequacy of size as good or very good. But borrowers were slightly less satisfied with the quality of home construction, with 70 percent ranking housing construction as good or very good. Despite mild concern over housing construction quality, less than 6 percent of the respondents ranked any of the above features—appearance, quality, and size—as poor or very poor.

**Figure 3--High satisfaction with current home**




Note: High general satisfaction is based on scores of 8, 9, or 10 on a scale of 1-10, with 1 the worst and 10 the best. High satisfaction on the other home characteristics is based on ratings of good or very good on a 5-group scale from very poor to very good.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

***Neighborhood Quality:*** Borrowers were relatively satisfied with their neighborhood, although some indicated concern over the quality of and accessibility to public services. About 77 percent of borrowers gave high ratings (8-10) to their neighborhood, based on a scale of 1 to 10, with 10 being the best (fig. 4 and app. table B5). About a third were completely satisfied, reporting the highest possible ranking of 10.

Borrowers were asked to evaluate specific features of their neighborhood, including quality of schools and public services, convenience to services, safety and security, and neighborhood appearance. In general, homeowners were satisfied with neighborhood safety and appearance, and the quality of local schools, with 75-80 percent rating these features as good or very good. A slightly lower percentage (68-69 percent) rated quality of and convenience to public services in the higher ranges.

An additional indicator of neighborhood quality is the availability of local public transportation. About 73 percent of borrowers indicated that public transportation was not available in the local area (app. table B3). However, when public transportation was available and when homeowners used it for transportation, most said that it met their household's needs, and virtually all (95 percent) had their own automobile or access to one.

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[6] Based on responses to the questions, "About how much did you pay for this house when you bought it?" and "About how much do you think this house would sell for in today's market?"

[7] The classification of ratings of 8, 9, and 10 as an indicator of high satisfaction is consistent with American Housing Survey measures.

## Have Their Housing Conditions Improved?

A comparison of the characteristics of borrowers' current housing financed through Rural Development with those of their prior housing arrangements points to improvements in housing conditions for most program participants (app. table B6). For example:

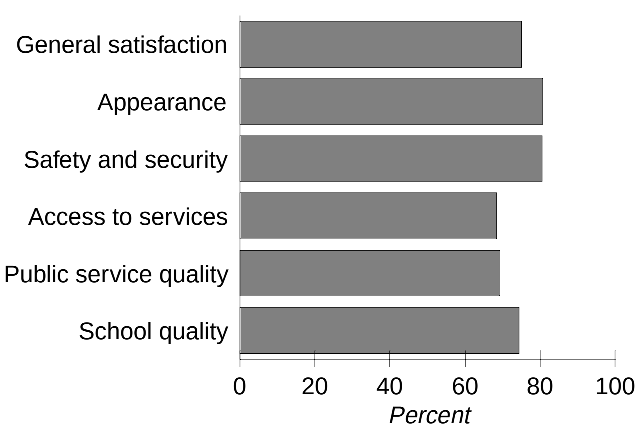
■ 73 percent were first-time home buyers, which may partially reflect the relatively young age of program participants (almost half were less than 35 years old).

■ Nine of 10 borrowers indicated that the quality of their current home was better than the quality of their previous home, and 6 of 10 reported their current neighborhood was better than their previous neighborhood.

■ Over half reported that their current housing costs were lower than or about the same as those in their last residence. Even though 48 percent indicated their costs were higher than in their prior home, most of these indicated that their income was higher as well.

The Single Family Direct Loan Housing Program appears to successfully encourage first-time homeownership and in many cases provides the opportunity to move from federally subsidized rental assistance programs to homeownership. About 25 percent of program participants had received Federal Government rental assistance at some time prior to purchasing their home and about a fourth of these had received prior rental assistance from Rural Development programs. This linkage between Rural Development rural rental assistance and homeownership loan programs supports Rural Development's rental housing program goals to help improve rural residents' economic stability through rental subsidies with the hope of encouraging eventual homeownership.

**Figure 4--High satisfaction with current neighborhood**




Note: High general satisfaction is based on scores of 8, 9, or 10 on a scale of 1-10, with 1 the worst and 10 the best. High satisfaction on the other neighborhood characteristics is based on ratings of good or very good on a 5-group scale from very poor to very good.
Source: 1998 Survey of USDA's Single Family Direct Loan Housing Program, ERS.

## How Satisfied Are They with Rural Development?

Borrowers were asked a series of questions to assess their level of satisfaction with general program operation and their financing experiences with Rural Development. In general, recent borrowers gave high marks to the process of buying a home and their current dealings with Rural Development. Almost 70 percent rated the home-buying process as good or very good (about equally split between the two categories), and 72 percent rated their interaction with Rural Development staff as good or very good (app. table B7). Eleven percent of the recent borrowers rated their experiences as poor or very poor. Also, nearly all clients (97 percent) would recommend Rural Development to others. And over 68 percent of borrowers first learned about the Rural Development Single Family Direct Loan Housing Program from family, friends, and neighbors. An important indicator of the value of the program is that nine of 10 borrowers believed that, without assistance from Rural Development, it would have taken them more than 2 years to have purchased a comparable home. Almost 44 percent of all borrowers believed they could never have purchased a home without the program.

In addition to answering specific questions regarding their experiences with the Rural Development housing loan program, about 25 percent of borrowers (765) provided additional comments, which were paraphrased by interviewers and added to the survey record.

Almost 40 percent of those who commented did so by expressing their appreciation for the Section 502

Single Family Direct Loan Housing Program and the benefits it provides. The majority of the favorable responses pointed to the borrowers' belief that without this program, they would have been unable to purchase a home. While some borrowers indicating favorable comments about their experiences also noted that they had encountered some problems either in communicating with the central office or with the amount of time the process had taken, they were in general very satisfied with their experience. Some of these comments were:

■ If it had not been for Rural Development, we could not have bought this house, and I am grateful.

■ Rural Development has been really helpful and supporting. I am very content with my house, very happy. I wish that everyone could use the program and afford a house like mine.

■ Rural Development is the best thing that ever happened to me.

About 48 percent of the 765 borrowers giving comments expressed varying degrees of frustration and anger about various facets of the Rural Development housing program. In general, unfavorable comments fell into three broad categories: (1) borrowers who had difficult experiences with contractors and were disappointed in Rural Development's response to their complaints; (2) borrowers who appeared to have not understood the details of program operation regarding annual evaluations of income change and the subsequent adjustments to subsidy amounts or how taxes and insurance were to be paid; and (3) borrowers who had difficulties communicating with the central office in St. Louis and believed that no one at Rural Development heard their complaints or cared about their difficulties. Examples of these comments are:

■ It would really be nice to have a booklet about how to deal with builders. As a first-time home buyer, builders take advantage of you. Rural Development could also monitor the builders. Buyers should know their rights. Rural Development should check into complaints. We should be able to know about options and which questions to ask builders. Buyers should be told to document everything in writing. I'm really glad someone is doing this survey.

■ My biggest complaint is that all 8 houses on the street were done by the Farmers' Home Administration and that when they come to inspect and check up on the houses, they seem more concerned with the cosmetics instead of the more important issues like plumbing and pumps, heating, and other things that are more important. Builders basically took the same shortcuts on all of these homes. No one in the Central Office takes responsibility for anything. They say they will get to it, which ends up costing the client more money. They are very unorganized!!!!!

■ I had no problems with Farmers Home Administration, but the contractor cut corners to save himself money. He used parts that were used before on an old torn-down home, bent the rules, and pocketed the money himself. FmHA says that they aren't responsible for what he may have done illegally, but they are the ones who set me up with him as my home builder and I didn't have any choice in the matter. They may not be responsible legally but morally I don't see how they can sleep at night.

■ They raised my payments almost $200 and I am upset that they ask for your income but don't ask how your money's spent. They justify your income but they don't know the status of your bills.

■ The payments when we started ranged from $310 to $320 in 1998. Now they want to raise it to $372 per month and it seems to me that it is not in accordance with the contract that we signed. We are anxious.

■ I dislike their service. It is difficult to get through to St. Louis. When I can get through the phone line, the person helping me does not have an answer to my question. We pay a little extra each month applied toward the principal, yet on our statement it still appears as unpaid. This has been going on for a year now.

■ USDA needs to do something so that their customers can get through to someone about their loans.

Additional frustrations over size constraints on homes and confusion about whether or not child-support should be included as income were also expressed by borrowers in their comments.

Of the 765 recent borrowers providing comments, 44 responded to the question, “Would you recommend Rural Development to others? If not, why?” Most of the 44 said they had already told one or more people about the rural homeowners loan program, and the remainder said they would recommend the program to others as long as they were aware of potential problems with contractors and the length of time for processing the loan.