

Summary and Conclusions

This report summarizes results of the 1998 Survey of USDA's Single Family Direct Loan Housing Program. The survey was designed to provide a detailed information base on the characteristics of recent participants in this housing assistance program. In addition, survey information was used to address several study objectives relating to program operation and effectiveness.

Who Benefits from Participation in the Section 502 Program?

In terms of demographic characteristics, program beneficiaries are young, with almost two-thirds under the age of 40. Only 7 percent of participating households are considered to be elderly, that is, at least one borrower 62 years or older. Most Section 502 households have children present in the home. The two largest groups of households are married couples with children (40 percent) and female single-parent households (32 percent). While whites comprise the majority of participating households, over a fourth are members of racial/ethnic minorities, including Hispanics, blacks, American Indian or Alaskan Natives, and Asian or Pacific Islanders. About 15 percent of households have one or more members with a disability that limits their major activities such as getting around, working, or taking care of themselves. The largest proportion of borrowers live in the South, followed by the Midwest, West, and the Northeast.

Program eligibility criteria require that participating households have low to moderate incomes. The average unadjusted household income of program participants was \$20,949 in 1997. Most households relied on more than one source of income, and most received income from wage and salary employment. For most groups, employment was the major source of income. Alimony and child support were other important income sources, especially for single-parent households. Relatively few borrowers participated in public assistance programs such as Temporary Assistance to Needy Families, Supplemental Security Income, and general public assistance, although one-fifth received food stamps at some time during the previous year.

How Do Program Participants Compare with Other Low-Income Rural Residents?

We conducted two analyses to assess how well program participants fared compared with other groups of low- to moderate-income rural residents. In the first analysis, we compared Section 502 borrowers with recent rural homebuyers having similar incomes. We found that the Section 502 program served a larger-than-proportionate share of female single-parent households and young households with borrowers under the age of 40, and a smaller share of married couples without children and borrowers 62 years and older. The program served disproportionately more Hispanics and blacks, compared with their shares among rural low-income homeowners; white households were less represented among Section 502 borrowers, compared with their share of all low- to moderate-income homeowners. These results suggest that younger families, especially those headed by a single parent, and minorities may have more restricted access to conventional loans or more difficulty accruing down payments, causing them to rely on the Section 502 program for home loans more often than do other households.

We also found that almost a fourth of the low- to moderate-income rural homeowners had experienced serious housing disadvantages in terms of housing cost burden, structural inadequacies, and crowding. Program regulations help to ensure that recent Section 502 program participants do not experience any of these housing disadvantages in the homes financed by Rural Development.

In the second analysis, we compared Section 502 program participants with a group of rural tenants having similar incomes and most likely to be eligible for program participation. Almost a third of these low- to moderate-income tenant households experienced at least one housing disadvantage in terms of high housing cost burden, structural inadequacy, or crowding. Improvements in housing quality and the appeal of homeownership are incentives for participation in the Section 502 program. The analysis suggests that this housing program may be more likely to attract tenants who are married couples with children and those who are single parents. Also, judging from the age

distributions of the two population groups, elderly tenants may be less likely to participate in the housing loan program. Black and Hispanic households are also disproportionately represented among the Section 502 borrower population compared with their share of all low- to moderate-income tenant households. What is not clear, however, in determining who actually becomes a Section 502 borrower, is the relative role between eligibility requirements and the desire of eligibles to participate.

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. An important indicator of program success is the finding that 45 percent of borrowers said that it would have taken longer than 2 years for them to be able to buy a comparable home; an additional 45 percent said that they never would have been able to buy a comparable home without the Section 502 program.

Housing financed with Section 502 loans must be modest in size, design, and cost. 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. Almost three-fourths had never owned a home before and most had been renting their homes prior to financing a home through Rural Development. Also, about 25 percent of program participants had at some time in the past received government rental assistance; about 6 percent of all 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 are highly satisfied with the appearance, construction quality, and size of their homes. While there was some variation by target group and characteristic, most borrowers reported high levels of satisfaction with their

home and neighborhood. Nearly all borrowers rated the quality of their current home and neighborhood as good as or better than that of their previous residence and community. While nearly half indicated that their housing costs had increased with the purchase of their home, many also reported an increase in income.

How Satisfied are Borrowers with the Operation of the Program and Their Rural Development Financing Experiences?

More than two-thirds of all recent Section 502 borrowers rated their satisfaction with the process of buying and financing their homes through Rural Development as good or very good. Slightly higher proportions gave similar ratings to their current dealings with Rural Development. About one in ten reported dissatisfaction with each of these activities. When these borrowers stated why they were dissatisfied, most comments fell into one of 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 evaluations and payment of insurance and taxes; and (3) problems communicating with the Rural Development central office concerning their complaints.