HAC
Housing Assistance Council
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, E-Mail: hac@ruralhome.org
www.ruralhome.org

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AFFORDABLE RURAL HOUSING: ISSUES AND RECOMMENDATIONS

Foreclosures and mortgage markets have become the major housing-related news topics, but the next Administration will face other significant housing issues as well. The housing needs of low-income people in both urban and rural places predated the housing crash and will undoubtedly outlast it.

One of every five homes in this country is located in a nonmetropolitan area. More than one quarter of rural households pay more than the federal standard of 30 percent of their monthly income for housing. Most of these cost-burdened rural households have low incomes, and four in ten are renters.

At the same time, 1.7 million rural homes (6.3 percent) are either moderately or severely substandard. Minorities in rural areas are among the poorest and worst housed groups in the entire nation, with much higher levels of inadequate housing conditions. Complicating efforts to improve rural housing, many rural places lack the kind of nonprofit organization infrastructure that cities have.

Housing needs, including a shortage of housing organizations, are particularly severe for certain rural places and populations: Appalachia, the colonias on the U.S.-Mexico border, farmworkers, the Mississippi Delta, Native American lands, and the Southern Black Belt.

Despite the needs, funding for the U.S. Department of Agriculture (USDA) rural housing programs has decreased significantly in recent years. At the same time, the mortgage crisis threatens to erase gains in homeownership and asset-building, while rental units in aging buildings need to be rehabilitated and preserved as affordable housing.

The Housing Assistance Council's key recommendations for rural housing follow.

Use rural housing programs to help stimulate the economy.

Recognizing that housing creates jobs, provides stability for workers, and makes communities viable, add the following amounts for the following programs.

- $1 billion for low-interest, fixed-rate mortgages to low-income homebuyers through the Section 502 direct homeownership loan program;
- $250 million for 3,000 rental units financed by the Section 515 rural rental housing program;
- $25 million for loans and $25 million for grants to enable the Section 504 repair program to address health and safety concerns in 5,000 homes owned by very low-income households;

Building Rural Communities

Southeast Office
600 W. Peachtree St., N.W.
Suite 1500
Atlanta, GA 30308
Tel.: 404-892-4824
Fax: 404-892-1204
southeast@ruralhome.org

Southwest Office
3939 San Pedro, N.E.
Suite C-7
Albuquerque, NM 87110
Tel.: 505-883-1003
Fax: 505-883-1005
southwest@ruralhome.org

Midwest Office
10100 N.W. Ambassador Drive
Suite 310
Kansas City, MO 64153
Tel.: 816-880-0400
Fax: 816-880-0500
midwest@ruralhome.org

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- $50 million for loans and $50 million for grants to provide 10,000 rentals for farmworkers through the Section 514/516 farm labor housing program;
- $35 million to help local organizations run "sweat equity" homeownership programs in rural places using the Section 523 self-help housing program; and
- $300 million to provide Section 521 Rental Assistance to 3,000 low-income rural renters for five years.

Protect homeowners against foreclosure when possible, and against predatory lenders in the future.

Support proposals to eliminate prepayment penalties, convert adjustable rate mortgages to fixed rate mortgages, allow deferral of payments, expand post-purchase counseling programs, regulate mortgage originators, and the like. Changes that would be particularly important for rural areas include:

- provide additional Section 502 direct loan funds and authority for Section 502 direct loans to be used to refinance mortgages obtained with USDA Section 502 guarantees when rural homeowners are in danger of defaulting and cannot afford to refinance through the guarantee program (direct mortgages have lower interest rates and therefore require lower payments);
- help owners of manufactured homes to obtain standard mortgages to replace the high-cost personal property loans that are often used to purchase these structures;
- make special efforts to advertise the availability of Federal Housing Administration (FHA) assistance in rural areas, which have historically been underserved by FHA programs; and
- protect tenants whose landlords' mortgages are foreclosed by requiring new owners to honor their leases or give them at least 90 days' notice to vacate.

Maintain the viability of rural self-help "sweat equity" homeownership programs. The Section 523 program is indispensable for the continuation of rural self-help programs, which give low-income rural families sound alternatives to subprime and predatory mortgages. Section 523 must not only receive sufficient funding to renew grants expiring each year, but must also make up the shortfalls in fiscal year 2007 and 2008 appropriations. Continued full funding of the Section 502 direct mortgage program and the Department of Housing and Urban Development's Self-Help Homeownership Opportunity Program is also essential, since many self-help participants rely on these programs as well.

Recognize the special situations of people who are homeless in rural places.

Enact the rural-friendly provisions of the Community Partnership to End Homelessness Act (S. 1518, approved by the Senate Banking Committee in November 2007) and the Homeless Emergency Assistance and Rapid Transition to Housing Act (H.R. 7221, which passed the House in October 2008). In rural places, small community-based and faith-based organizations are often the only entities providing services for homeless individuals and families. To improve their ability to help their clients, these bills would:

- target resources to help people who are either literally homeless or in unstable housing situations; the latter is particularly important in rural areas, where people without homes of their own often find temporary shelter with friends or relatives rather than living on streets;

- expand the definition of "chronically homeless" to include families as well as individuals; currently, funding decisions emphasize service to chronically homeless individuals, even though families and family members may also fit the "chronic" definition (having a disabling condition with four episodes of homelessness in three years or one year of being continuously homeless);
- use a simplified funding application for rural community organizations, which do not always have staff with fundraising experience; and
- allow community groups to use a portion of their funding for capacity building: staff training, equipment purchases, and the like.

Fund and implement the recently authorized national Housing Trust Fund, which is targeted to develop rental housing for the very lowest income Americans.

The Housing and Economic Recovery Act of 2008 created a national Housing Trust Fund and required 90 percent of the funding be used for rental housing for very low-income households. Beginning in 2010, the trust fund should begin receiving funding from Fannie Mae and Freddie Mac that is not subject to the annual appropriations process; this funding could be jeopardized, however, if Fannie Mae and Freddie Mac are in poor financial health in 2010. To make this unique program as effective as possible in addressing the needs of the poorest rural Americans, HAC recommends:

- Add other sources of dedicated funding for the Housing Trust Fund, beginning in FY 2009, in addition to any funds allocated from Fannie Mae and Freddie Mac.
- Ensure that the regulations being developed by the Department of Housing and Urban Development (HUD) require states, which will administer the funds for HUD, to provide a fair share of funding to rural areas.
- Ensure that by mid-summer 2009 HUD issues initial regulations and the formula it will use to allocate funds to the states, so that implementation will be fast and smooth when funds become available.

Ensure that direct rural housing loans are not replaced by loan guarantees that cannot serve the same income levels.

By providing loans directly to them, USDA's Section 502 direct loan program makes homeownership possible for very low- and low-income rural residents who cannot qualify for private mortgages, and ensures that they will not turn to predatory lenders to achieve their dreams. The Bush Administration's budget proposals consistently suggested defunding this program in favor of the Section 502 guarantee program. While guarantees cost the government less than direct loans, one program cannot replace the other because they serve different populations: in 2006 homebuyers receiving Section 502 direct loans had an average income of $22,992, compared to $40,442 for homebuyers with Section 502 guaranteed loans.

The Bush Administration also proposed to stop developing new rental housing under USDA's Section 515 direct loan program, in favor of the Section 538 guarantee program for rental housing. Like their homeownership counterparts, the rental programs serve different populations. The average income of Section 515 tenants is just under $11,000 per year as of April 2008; no comparable figure is available for Section 538 tenants, but in 2005 USDA reported Section 538 tenants averaged about $18,400 per year.

Both direct loan programs must be kept in place with full funding.

Preserve and revitalize affordable Section 515 rural rental housing, and protect the tenants of properties that cannot be preserved.

Since 1962, the U.S. Department of Agriculture's Section 515 program has provided low-cost mortgages for property owners to develop rental housing that is affordable to the lowest income rural Americans. The incomes of current Section 515 tenants average about $10,000 and more than half of them are elderly or disabled. Now Section 515 properties are aging, with many badly in need of repairs and renovations. At the same time, some owners want to prepay their mortgages and leave the Section 515 program, often because they hope to convert their apartments to market-rate rentals. Federal intervention is needed to preserve the taxpayers' investment in these properties and to save tenants' homes.

- Enact legislation equivalent to H.R. 3873 and S. 3363, the Section 515 Rural Housing Property Transfer Improvement Act, which would require the U.S. Department of Agriculture to expedite sales of Section 515 properties to new owners who would keep them affordable for low-income tenants. H.R. 3873 has passed the House. The Senate has taken no action on S. 3363.
- Enact legislation equivalent to H.R. 4002, the Rural Housing Preservation Act. It would create a preservation program based on a successful USDA demonstration program that has operated since 2006, enabling owners to refinance their properties and obtain additional monies to revitalize aging properties, in exchange for keeping their properties affordable. It would also provide vouchers so tenants can remain in their homes at affordable rents, whether their properties are revitalized, prepaid, or foreclosed.
- Retain current restrictions on prepayment of properties financed before 1989, rather than removing them as was proposed in H.R. 5039 in the 109th Congress.

Protect and fully fund housing programs that serve vulnerable populations.

Farmworkers, Native Americans and other minorities, and other particularly vulnerable rural populations are served both by programs targeted specifically to them and also by programs targeted to those with very low incomes. Self-help housing, for example, a construction model in which families help build their own homes, works very well to help farm laborers to afford homeownership despite their low and uneven earnings. These programs, both targeted and not, must be supported.

Continue improving federal response to disasters, including providing short-, medium-, and long-term housing for survivors, and taking rural needs into account.

The challenges of disaster recovery – such as the need for affordable housing – in urban and rural areas are now well known. Housing agencies, including HUD and USDA RD, must be integrally involved in recovery efforts both immediately and in the longer term. In addition, provision of post-disaster housing by any entity should not be based solely on residents' pre-disaster housing aid; all who meet eligibility criteria after a disaster should receive aid, not only those who were receiving aid before the disaster.

Ensure adequate funding to meet the operations and capital needs of public housing.

Although public housing receives little positive attention, it remains a valuable housing resource for the lowest-income people in rural and urban areas. Furthermore, taxpayers have made considerably investments in these properties already. Public housing authorities, whether operating 20 units in a small town or hundreds in a major city, need continued federal support and funding because people continue to need the housing they provide.

Continue building the capacity of rural housing organizations.

Capacity building programs at both HUD and USDA help local organizations increase their ability to serve their communities, and should be supported.

- Support the Rural Community Development Initiative, which builds organizational capacity for local housing organizations. RCDI helps overcome a major hurdle for the improvement of rural housing conditions, the lack of housing experience, and support for community and faith-based rural organizations.

- Adopt legislation equivalent to H.R. 1982, authorizing HUD's Rural Housing and Economic Development program. This bill passed the House in July 2007. The Bush Administration contended that HUD's Rural Housing and Economic Development (RHED) program duplicates USDA rural housing programs. Unlike USDA's programs, however, RHED provides scarce federal capacity building and project funding directly to organizations serving small rural communities.

Maintain full funding for HUD and USDA housing programs.

Reject proposals to reduce or eliminate funding. See Table 1 for recommended funding levels for key rural housing programs.

Reinvigorate the original mission and philosophy of the USDA RD housing programs.

When the Farmers Home Administration was created to administer the housing programs now run by RD, it was said to be "the lender of last resort," funding developments and housing improvements for the lowest-income Americans who could not obtain financing anywhere else. More recently, RD officials have called the agency "rural America's venture capital firm" (2003) and a leader of a "rural renaissance" based on technology (2007). RD does not, however, need to duplicate the functions of the private sector. It should be rededicated to assist those who are not served by market-rate loans or by loan guarantees.

Ensure the rural housing programs remain at USDA.

Suggestions to move the rural housing programs to the Department of Housing and Urban Development ignore the very real differences between rural and urban America. USDA's expertise and its established network of offices in rural places enable it to deliver housing assistance to the rural residents who need it.

Avoid further consolidation of USDA RD field offices.

Before 1994, the Farmers Home Administration had offices in almost every rural county in the country, giving it a local presence that made its programs accessible to the lowest-income rural Americans, even those without telephones. Cost-saving measures have led to consolidation of many field offices so that clients are served by regional offices covering numerous counties, loan servicing is centralized in a single national office, and the agency's clients are encouraged to communicate electronically. However, until universal access to high-speed internet services and computers, as well as cultural acceptance and universal ability to use them, are achieved, local offices will remain essential to RD's ability to do its job.

Table 1
Recommended Rural Housing Program Funding Levels
Housing Assistance Council

USDA Rural Development Program	**FY 2009 HAC Recommendation (dollars in millions)**
Loans and Guarantees	
502 Single Fam. Direct	$2,000
502 Single Family Guar.	4,800
504 Very Low-inc. Repair	30
514 Farm Labor Hsg.	50
515 Rental Hsg. Direct	250
538 Rental Hsg. Guar.	150
Grants and Payments	
Rental Prsrv. Revlg. Loans	*
504 Very Low-inc. Repair	30
516 Farm Labor Hsg.	50
523 Self-Help TA	95
533 Hsg. Prsrv. Grants	50
521 Rental Assistance	1,297**
542 Rural Hsg. Vouchers	*
Rental Prsrv. Demo.	50*
Rural Cmnty. Dev't Init.	10
HUD Program	
Rural Hsg. & Econ. Dev. (RHED)	25

* HAC recommends a total of $50 million be appropriated for USDA's Multifamily Rental Preservation Demonstration, Section 542 preservation vouchers, and the Rental Preservation Revolving Loan Fund (PRLF), to be allocated among those three programs by USDA. USDA should allocate at least $6 million for the PRLF.

** HAC recommends $997 million to renew expiring one-year Rental Assistance contracts and an additional $300 billion to provide 3,000 new contracts for five years each.