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ABSTRACT

Although housing standards have been raised in all parts of the United States since 1960, there are still significant numbers of American families whose housing conditions fall below accepted standards and others who must pay excessive portions of their income for housing. Nearly two-thirds of the nation's substandard housing is located in rural America. Of the approximately 20 million households residing in nonmetropolitan areas, almost 2.5 million lived in housing lacking complete plumbing in 1970. For many years, it has been evident that rural people have found it much more difficult to obtain credit for homebuilding. There is some evidence in the 1971 Census data of the disparities between nonmetro and metro areas in the availability of mortgage funds to homebuyers. Congress has enacted a number of programs designed to improve rural housing. Since 1968, when a number of housing programs were created or expanded by Congress, there has been a measurable increase in the federally-assisted housing made available to American families. For rural households, particularly those in places of less than 10,000 population, the most relevant housing programs have been administered through the Department of Agriculture's Farmers Home Administration (FmHA). (NQ)

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RURAL HOUSING: NEEDS, CREDIT AVAILABILITY, AND FEDERAL PROGRAMS

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FOR THE

SUBCOMMITTEE ON RURAL DEVELOPMENT

OF THE

COMMITTEE ON AGRICULTURE AND FORESTRY
UNITED STATES SENATE

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FOREWORD

For many years, it has been clear that rural people have found it much more difficult to obtain credit for homebuilding. This is reflected in the fact that nearly two-thirds of the substandard housing in the nation is located in rural America.

This situation is outlined extremely well in this report by the Congressional Research Service. Therefore, I am pleased to make it available.

This report does not necessarily reflect the opinions of all of the members of the Committee on Agriculture and Forestry.

DICK CLARK,
Chairman, Subcommittee on Rural Development.

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RURAL HOUSING:

NEEDS, CREDIT AVAILABILITY, AND FEDERAL PROGRAMS

I. HOUSING CONDITIONS AND NEEDS

Housing standards have been raised in all parts of the United States since 1960. Improvements have been made in rural communities as well as the metropolitan areas of the country. But there are still significant numbers of American families whose housing conditions fall below accepted standards and others who must pay excessive portions of their income for housing. A disproportionate number of these families live in rural areas.

There are approximately 20 million households residing in nonmetropolitan areas. Of these, almost 2.5 million lived in dwellings lacking complete plumbing at the time of the last census—1970. Complete plumbing means that each family has a toilet, bathtub or shower, and hot and cold piped water inside the structure. Incomplete plumbing is largely a rural problem in the United States: in 1970 12 out of 100 households in nonmetro areas lacked some or all of these sanitary facilities compared with only 3 out of 100 in metro areas.

Bad housing is not evenly distributed among all rural families. It is most serious in the South, where 19 out of 100 nonmetro families have incomplete plumbing. Crowding (units with more than 1 person per room) is also somewhat more prevalent in the South, where 11 out of 100 nonmetro families have inadequate space compared with 9 out of 100 for all nonmetro households.

As in metropolitan areas, certain segments of the rural population have disproportionate shares of bad housing. The groups at risk are the poor, the elderly, and nonwhites.

—Four out of five nonmetro households without full plumbing facilities had incomes in 1969 of less than $6,000 and more than half had deep-poverty incomes of less than $3,000.

—Elderly households (those with heads aged 65 and over) comprised 23 percent of all nonmetro households but they occupied almost one-third of the houses lacking plumbing.

—Black families made up only 7 percent of all nonmetro households in 1970 but they accounted for 29 percent of all occupied houses without full plumbing.

Water and sewer facilities

Modern community facilities are important not only for the health of the community but for economic development. Public or community

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water and sewerage systems are almost universal in urban centers and the denser parts of metropolitan areas. Rural communities are increasingly concerned about installing community systems. The task is huge. In 1970 more than 8 million year-round houses in nonmetro areas (total of 21.6 million occupied and vacant) were not linked to a public water system. More than 11 million such units were not served by a public sewerage system. It is not known now many of these units can continue to be safely served by individual wells, cesspools and septic tanks and similar facilities. It is known that if population densities are to rise and industries to be attracted to rural communities, many will seek to install or modernize their public water and sewerage systems. The costs, however, will run high. A recent study estimated the cost of installing community water and sewer facilities in relatively low density neighborhoods at $5,500 per dwelling unit. If public systems were to be installed in areas containing only half the nonmetro houses lacking public water (4 million), the total cost would come to at least $22 billion.[1]

[1] The cost might run higher since housing in rural communities is more spread out than in the model on which the unit cost is based. See the Costs of Sprawl, Real Estate Research Corp., April 1974.

II. HOUSING CREDIT AVAILABILITY IN RURAL AREAS

For many decades the lending institutions in rural areas were heavily oriented to the credit requirements of farmers. Even today there are more than 5,300 commercial banks with 25 percent or more of their total loans in farm loans. While commercial banks make mortgage loans to nonfarm families, such loans constitute only a small fraction of their business. In mid-1974, the residential mortgage loans (in dollar value) of small commercial banks in the country made up about 13 percent of total loans and investments of such banks. This ratio is probably indicative of the relative weight of housing loans in the portfolios of commercial banks in rural areas.

In recent years, borrowers have had more places to shop for mortgage loans than a decade earlier. In 1960 commercial banks or trust companies held 34 percent of the mortgages on one family homeowner properties in rural counties.[1] Savings and loans held 23 percent of these mortgages and individuals held more than 21 percent. Mutual savings banks and life insurance companies accounted for only 7 percent. In other parts of the country, home borrowers were much less dependent upon commercial banks and individuals and obtained the bulk of their home loans from savings and loan associations, mutual savings banks, and life insurance companies. In terms of dollars of mortgage debt outstanding, the dependence upon commercial banks and individuals was less pronounced but still much higher than in nonrural counties.

TABLE 1.—PERCENTAGE DISTRIBUTION OF 1 DWELLING UNIT HOMEOWNER MORTGAGED PROPERTIES AND AMOUNT OF 1ST MORTGAGE DEBT OUTSTANDING ON SUCH PROPERTIES BY LENDER, RURAL COUNTIES, OTHER COUNTIES, AND ALL COUNTIES, UNITED STATES, 1960

[In percent]

Lender	Percentage of mortgaged properties			Percentage of debt outstanding		
	Rural counties	Other counties	All counties	Rural counties	Other counties	All counties
Commercial bank or trust company	34.1	16.0	16.8	29.5	14.4	14.8
Savings and loan association	22.9	34.5	34.0	24.6	33.8	33.5
Individual	21.4	10.9	11.4	18.0	7.4	7.7
Mutual savings bank or life insurance company	7.3	30.1	29.1	11.7	35.4	34.8
All other	14.3	8.5	8.7	16.2	9.0	9.2
All lenders	100.0	100.0	100.0	100.0	100.0	100.0

Source: U.S. Census of Housing, 1960; Calculated from data for rural counties in app. tables 2 and 3, this report; for all counties, from vol. V, pt. 1, tables 2 and 3, pp. 5, 6, 11, and 12. Percentages of all-county debt outstanding are as published in vol. V, pt. 1, table E, p. XXV. Other-county data are residual. Reproduced from: "Financing of Rural Nonfarm Housing in the United States," U.S. Department of Agriculture, 1970, p. 20.

[1] Counties containing no more than one place or part of a place of 4,000 population or less were classified as rural. The 1960 data are taken from a report of the U.S. Department of Agriculture, "Financing of Rural Nonfarm Housing in the United States," issued November 1970.

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By 1971 the savings and loans had displaced the commercial banks in nonmetro areas as the most important institutional lenders on single family homes. Outside of metro areas in places of less than 10,000 population, S & L's held 35 percent of these mortgages, commercial banks had 26 percent, and individuals held almost 11 percent. While these figures are not precisely comparable to those for 1960, they show a remarkable growth in rural areas of institutional lenders oriented to housing credit. A particularly salutary change was the reduced dependence upon individuals (usually the seller of a house) for the financing of home transactions. (In 1974, in both metro and nonmetro areas, individuals who wanted to sell their homes were more likely to have to take back a mortgage due to the reduced flow of household savings into the deposits of S & L's and commercial banks.)

There is some evidence, nevertheless, in the 1971 Census data of continuing disparities between nonmetro and metro areas in the availability of mortgage funds to homebuyers. As Table 2 shows, mutual savings banks and life insurance companies held more than one-fourth of the mortgages on one-family houses located inside metro areas but only 14 percent on the nonmetro properties. The Federal National Mortgage Association (FNMA) was also a larger supplier of funds inside than outside metro areas.[2]

TABLE 2.—PERCENTAGE DISTRIBUTION OF 1-DWELLING-UNIT HOMEOWNER MORTGAGED PROPERTIES BY TYPE OF MORTGAGE HOLDER, 1971

	Inside SMSA's	Outside SMSA's	Outside SMSA's places of 10,000 or less and rural
Number of single-family units	14,568,000	4,532,000	3,173,000
Type of lending institution:			
Commercial bank	14.1	23.5	25.8
Mutual savings bank	15.8	8.4	8.1
Savings and loan association	39.2	37.0	35.2
Life insurance company	11.7	5.6	3.7
Mortgage company	1.2	1.5	2.0
Federal agency	2.5	7.5	9.0
Federal National Mortgage Association	5.3	2.7	1.8
Real estate or construction company	.5	.5	.6
Individual or individual estate	5.9	9.9	10.6
Other	3.7	3.3	3.3

Note: Percent distribution may not total to 100 0 due to rounding.

Source: U.S. Census of Housing, vol. V, "Residential Finance."

The significance of these figures is that mutual savings banks, life insurance companies, and FNMA supply funds that are largely from outside the borrowing area. To the extent that nonmetro areas do not have access to the funds of these institutions, they are more dependent upon their internal savings for housing credit. Rural areas have been heavily dependent upon outside sources for a substantial portion of their total credit requirements during the past decade. Within this general credit shortfall, there would appear to be a substantial deficiency in credit for housing.

[2] This mainly reflects the fact that the Federal Housing Administration was relatively less active in rural areas than in metro areas. In 1971 FNMA was authorized to purchase only FHA and VA underwritten mortgages. (See p. 7.)

As might be expected, the smallest places outside of metropolitan areas are most reliant upon internal sources for home mortgages. In 1971 individuals held 10.6 percent of the mortgages compared with less than 6 percent inside metro areas and commercial banks held almost 26 percent compared with 14 percent in metro areas.

One bright spot is the role of Federal agencies. These agencies (among which the Farmers Home Administration probably was the most prominent) accounted for 9 percent of the mortgages in small places. But one Federal agency that has not been as helpful to rural areas as to metro areas is the Federal Housing Administration in the Department of Housing and Urban Development. FHA-insured mortgage debt (in dollars) as a percentage of total mortgage debt outstanding on residential properties in 1971 was:

	Percent
Inside metro areas	21
Outside metro areas	14.5
Outside metro areas places less than 10,000	10.4

The relative shortage in rural areas of mortgage bankers and other institutions that originate FHA-insured mortgage loans helps explain the lower participation rate in such areas.

Mortgage terms

Homebuyers who borrow from commercial banks or savings and loan associations outside of metropolitan areas are subject to higher interest rates and shorter terms than are homebuyers inside metro areas. In 1971 the median interest rate charged by commercial banks and S & L's inside metro areas was 6.0 percent. But the median rate charged by such lenders outside metro areas was 6.7 percent. The median term for mortgages held by S & L's within SMSA's was 24.6 years; for S & L's outside it was 20.4 years. For commercial banks inside and outside metro areas the median term was 22.2 and 13.6 years, respectively. Mortgages held by individuals had even shorter terms of 15.9 and 12.2 years. Since commercial banks account for a larger proportion of mortgage credit in rural areas, this combination of considerably shorter term loans made at higher interest rates is a practice that works to the disadvantage of the rural borrower. (See table 3)

TABLE 3 —1ST MORTGAGE CHARACTERISTICS, INSIDE AND OUTSIDE SMSA's BY TYPE OF HOLDER, 1971

	Inside SMSA's			Outside SMSA's		
Type of holder	Median interest rate	Median term (years)	Loan as percent of purchase price (median)	Median interest rate	Median term (years)	Loan as percent of purchase price (median)
Commercial banks	6 0	22.2	79	6 7	13.6	78
S&L's	6.0	24.6	80	6.7	20.4	82
Individuals	6.0	15.9	88	6.0	12.2	91
Federal agency	5.9	29.7	96	5.2	27.7	97
FNMA	6.0	30.0	97	6.0	30.0	98

Source. 1970 Census of Housing, vol. V, Residential Finance, U S. Bureau of the Census, chapter 2, table 5b, pp. 151, 152, table 5d, pp. 193, 194.

Another characteristic of mortgage loans, the size of the down payment, may not be as unfavorable to the rural borrower. Although down payments required by commercial banks are slightly larger outside SMSA's than inside (as reflected by median figures for first mortgage loans as a percent of purchase price—table 3), down payments required by S & L's are slightly smaller outside metro areas than inside. Such a cancelling effect would seem to put metropolitan and rural borrowers on more of an equal basis in terms of down payment required.

How do these differentials in mortgage terms affect the borrower in rural areas as compared with metro areas? In both areas, a house purchased for $30,000 would require approximately the same down payment of 20 percent or $6,000. But a typical rural borrower would have to repay the $24,000 mortgage obtained from a commercial bank in 14 years at 6¾ percent. His monthly payment is $221.20. His metropolitan cousin borrowed the same amount from a bank but has 22 years to repay at 6 percent. The monthly payment is $163.94. Clearly, the shorter repayment period and higher interest rates translate into substantially higher monthly housing expenses for rural families as compared with metro families for the same mortgage amounts.[5]

[5] Those who were able to borrow from S & L's in rural areas were not as disadvantaged. For a $24,000 mortgage the monthly payment on a 6¾ percent loan for 20 years is $182.49; for the same amount at 6 percent to be repaid in 25 years (typical metro terms in 1971), the monthly payment is $154.63.

III. FEDERAL PROGRAMS FOR RURAL HOUSING

The Congress has enacted a number of programs designed to improve the housing of rural families. Since 1968, when a number of housing programs were created or expanded by the Congress, there has been a measurable increase in the volume of federally-assisted housing made available to American families. For the country as a whole, the bulk of the aid has come through the Department of Housing and Urban Development. For rural households, particularly those living in places of less than 10,000 population, the most relevant housing programs have been those administered by the Farmers Home Administration (FmHA) in the Department of Agriculture.

Income levels served

The homeownership programs of FmHA provide aid to families with incomes below the median for the country. The median income of all families assisted under the Section 502 program during the year ending June 30, 1973 was $7,169. The comparable figure for families assisted under the program and receiving interest reduction subsidies was $5,941. The range of incomes served is shown in table 4. It will be noted that only 7.4 percent of all aided families (and 12.2 percent of those receiving interest subsidies) had incomes below $4,000. The poverty line for a nonfarm family of four in 1973 was $4,550.

The maximum adjusted income for families eligible for FmHA-assisted rental housing varies from state to state. For families in whose behalf the deepest interest subsidies are paid the range of maximum income is roughly $6,500–7,500. For others receiving a smaller subsidy the range is approximately $8,000–9,500. The Farmers Home Administration relies upon sponsors of rental housing to select eligible families and does not collect data on incomes of families in rental housing.

TABLE 4.—INCOMES OF FAMILIES ACQUIRING HOMES THROUGH SECTION 502 IN THE YEAR ENDING JUNE 30, 1973

Gross income	Percent: All families	Percent: Families receiving interest credits
Under $3,000	2.5	4.1
$3,000 to $3,999	4.9	8.1
$4,000 to $4,999	10.2	16.9
$5,000 to $5,999	13.5	22.2
$6,000 to $6,999	16.0	25.3
$7,000 to $7,999	17.2	18.3
$8,000 to $8,999	15.0	4.1
$9,000 to $9,999	10.5	.7
$10,000 and over	10.3	(1)
Median income	$7,169	$5,941

1 Less than 0.5 percent.

Source: Farmers Home Administration. Medians computed by CRS.

Administration policies

The Administration has raised serious questions about the usefulness of many of the rural housing programs. Most of the programs were suspended by executive determination at the start of 1973. The budget issued at that time stated:

> No new obligations will be incurred under the low-income housing, rural rental housing, and farm labor housing loan programs after January 8, 1973, pending completion of a thorough evaluation of federally sub[illegible] [illegible]sing programs. This evaluation will focus on [illegible] programs: (1) are the most effective mechanisms [illegible] for providing housing assistance to low-income families; (2) are providing excessive benefits to other than the intended beneficiaries; (3) represent a proper Federal role. Applications which had been certified for approval by this date will be processed for approval and disbursement.[1]

The rural housing programs were resumed after July 31, 1973 in compliance with a Federal Court order of that date handed down in the U.S. District Court of the District of Columbia.[2] But the Administration continued its efforts to reorient federally-assisted housing programs. The proposed budget for fiscal year 1975 (issued January 1974) stated:

> This budget provides for an interim rural housing policy which moves in the direction supported by the President's housing study through greater emphasis on using existing housing, rental housing, home repairs and rehabilitation, and makes Farmers Home Administration programs more available to persons with the greatest housing needs. This action is being taken pending completion of the HUD experimental housing program. Guaranteed loans are to be used on an experimental basis during 1974 and 1975 for a portion of both the moderate income and rental housing program.[3]

Program levels

Over the past five years (fiscal 1970–1974) more than a half million families have been assisted by housing programs of the Farmers Home Administration. The funds obligated annually under these programs rose from approximately $800 million in fiscal year 1970 to almost $1.8 billion in fiscal 1974. The bulk of the loans throughout these years went to individual families who were enabled to purchase homes under the Section 502 program. More than 460,000 families bought homes through this program, most of them acquiring new houses.

Other rural housing programs of FmHA have never reached significant levels. The rental housing program, Section 515, has provided a total of 31,000 units in five years. Loans for housing repairs to very low income families (Section 504) have averaged only 3,400 a year for a five-year total of 17,000. Loans and grants for housing farm laborers (Section 514 and 156) have financed a total of 4,000 units in the past five years. (See table 5)

[1] Budget of the U.S. Government, fiscal year 1974, appendix, p. 175.

[2] *Pealo v. Farmers Home Administration* (Civ. Action No. 1028–73, D.D.C.), Memorandum form [order]. Cited in Louis Fisher, "Court Cases on Impoundment of Funds: A Public Policy Analysis," Congressional Research Service, Washington, D.C., March 15, 1974, p. 4.

[3] Budget, fiscal yea[illegible] 1975, p. 171.

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TABLE 5.—FHA RURAL HOUSING PROGRAMS, AMOUNT OBLIGATED AND NUMBER OF UNITS, FISCAL YEARS 1970–74

[Amount in thousands]

Program	1974		1973		1972		1971		1970		Total 1970–74	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number
Total FHA housing programs	$1,787,662	103,069	$1,763,732	117,898	$1,616,054	114,853	$1,395,768	110,950	$793,901	72,778	$7,357,117	519,548
Rural housing loans, sec. 502 [1]	1,589,885	86,543	1,644,300	105,847	1,561,220	106,878	1,362,276	103,824	756,532	65,033	6,914,213	468,125
Rural rental loans, sec. 515	173,314	12,590	105,100	8,600	40,117	3,868	26,789	2,624	28,441	3,003	373,761	30,685
Farm labor housing loans and grants, sec. 514/516	20,081	1,751	10,200	856	9,376	888	1,211	138	3,683	352	44,551	3,985
Housing repair loans, sec. 504	4,382	2,185	4,132	2,595	5,341	3,219	5,492	4,364	5,245	4,390	24,592	16,753

[1] Figures for number of units represent only initial loans made. Subsequent loans made to complete construction on initial loans are not included.

Source: Farmers Home Administration.

Program performance in fiscal 1974

In the 12-month period ending June 30, 1974 the Farmers Home Administration made commitments on 103,000 housing units. This was below the levels attained in fiscal years 1973 and 1972 of 118,000 and 115,000 units, respectively. The main shortfall was in the low income sector of Section 502. In 1973 67,000 units were financed. In 1974 only 44,500 were financed. This figure represents only 39 percent of the projected authorization level of 114,000 low-income units. In dollar term, FmHA obligated $808 million for low-income Section 502 housing, against a total authorization from the Congress of $1.278 billion. FmHA utilized its discretionary authority to shift funds from the low to the moderate income sector of Section 502 and made loans for 42,000 units rather than the 41,000 anticipated at the time funds were appropriated.

Of the 86,543 Section 502 units obligated in fiscal 1974, 37,238 units for low-income families were subsidized with interest credit loans. Congress had indicated for fiscal 1974 that almost two-thirds of the Section 502 funds should go to interest credit loans. In fact little more than one-third of the funds were so allocated. The Farmers Home Administration failed to obligate almost $400 million authorized for housing. The bulk of these unobligated funds had been initially targeted for the interest credit Section 502 program. Since loans per new Section 502 unit in 1974 averaged $19,400, as many as 20,000 additional families could have been assisted if all the funds had been obligated.

The Farmers Home Administration committed virtually all funds authorized for rural rental housing under Section 515. But it obligated less than half the $10 million authorized for housing repair loans to very low income families. (See table 6)

TABLE 6.—FHA RURAL HOUSING PROGRAMS, AUTHORIZATIONS AND OBLIGATIONS FOR FISCAL YEAR 1974

Program	Number of units: Authorized 1974	Number of units: Obligated June 30, 1974	Number of units: Ratio obligated to authorized (percent)	Authorized 1974 (thousands)	Obligated June 30, 1974 (thousands)	Ratio obligated to authorized (percent)
Rural housing loans, sec. 502:[1]						
Total	154,775	86,543	55.9	$1,985,000	$1,589,883	80.1
Low income	113,775	44,541	39 1	1,278,000	807,927	63.2
New interest credit		28,584			555,557	
Old interest credit		8,654			149,880	
Non interest credit		7,303			102,490	
Moderate income	41,000	42,002	102.4	707,000	781,956	110.6
Rural rental housing loans, sec 515	11,050	12,590	113.9	179,000	173,314	96.8
Farm labor housing loans, sec 514	750	[2]1,751	233.5	10,000	10,000	100.6
Farm labor housing grants, sec 516		(3)		10,081	10,081	100.0
Housing repair loans, sec. 504[1]	5,500	2,185	39.7	10,000	4,382	43.8

[1] For secs. 502 and 504 the figures under "number of units obligated" represent the number of initial loans made. Subsequent loans made to complete construction on initial loans are not included. While the actual number of units assisted is not available, these figures for number of loans made for homeownership and repairs do correspond closely to the actual number of units assisted.

[2] Number of units funded by loans and grants.

[3] Breakdown not available.

Source: Farmers Home Administration.

Why subsidized loans fell short

The Administration's evaluation of Federal housing programs was completed in the fall of 1973.[4] While it was primarily concerned with programs of the Department of Housing and Urban Development, it also was the basis for a shift in Farmers Home Administration subsidized housing programs. New construction for lower income families was to be de-emphasized. Instead of new production there would be increased reliance upon existing housing in adequate condition and the rehabilitation of rundown housing. In the Administration view, existing units could be acquired and rehabilitated if necessary at lower unit costs than new housing. Thus, a given amount of Federal dollars could help more families, so the Administration argued.

While the concept had not been tested in rural areas, FmHA was required to reorient its lower income programs. The announced shift to existing and rehabilitated houses has been difficult to implement. Farmers Home officials initially projected almost 80,000 loans for existing or rehabilitated housing. More than half the 1974 appropriation for low income loans under Section 502 was reserved for existing and rehabilitated housing. Yet very few of these projected loans were actually made. Data provided by FmHA show that only 8,700 interest credit loans on existing houses were made under the Section 502 program by the end of fiscal 1974. Another 7,300 low income loans were made without interest credit under this program, some of which may have been for existing or rehabilitated houses. These 16,000, not all of which were for existing or rehabilitated housing, were more than 80 percent short of the target of 80,000 units.

In contrast with these lagging efforts in the existing and rehabilitation sector, FmHA managed to make interest credit loans on 29,000 new units, reaching 85 percent of the 34,000 projected at the time of the appropriation. Another 42,000 loans to moderate income families were made under Section 502 without interest credit, as noted earlier, an amount in excess of the initial projection by FmHA. About three out of five of these houses were newly constructed.

Figures available thus far for the first two months of fiscal 1975 indicate that existing and rehabilitation loans are continuing to be difficult to make. These early figures show that 8,400 loans have been made for new construction, while existing and rehabilitation loans account for 6,000 units.

In short, the Farmers Home Administration has had far less success in carrying out its responsibilites with respect to existing and rehabilitated housing as compared with new housing. In part this may be due to the primitive state of the rehabilitation industry in rural areas. It may also reflect the absence of any substantial surplus of existing housing in rural areas, at least in places where rural families want to live. To some degree, the shortfall may also be attributable to the lack of FmHA personnel in the field with experience in the administration of rehabilitation and existing housing loan programs.

In shifting emphasis from new production to funding existing and rehabilitated houses, the Administration's rationale implied that more lower income families could be served and at a significantly

[4] "Housing in the Seventies," Department of Housing and Urban Development, released October 6, 1973.

lower cost per unit. "The present programs provide relatively large amounts of housing services to a limited number of families," the 1973 Administration study held. Moreover, those programs mostly served families above the poverty level. Yet since the shift in emphasis, new production has declined for lower income families without a corresponding increase in existing loans, while targets for moderate income families have been met. As for serving more families at a lower cost, the lower performance ratio in number of houses as compared with amounts of dollars obligated apparently reflects higher than anticipated average costs of existing houses. In fact, loans for existing houses averaged $17,300 in 1974 compared with $19,400 for new houses financed with interest credit under Section 502. Thus the presumed cost advantage of the change in policy may be less than averred by the Administration.

IV. PROGRESS TOWARD LEGISLATIVE OBJECTIVES

1. Eliminating or narrowing the general credit deficit for rural housing

Some progress is indicated by the growth of savings and loan associations in nonmetro areas and the reduced dependence upon individuals for mortgage loans. But a persisting credit gap is suggested by the light participation of outside institutions such as insurance companies and mutual savings banks in the mortgage markets of nonmetro areas. Rural homebuyers cannot obtain as favorable mortgage terms as metropolitan homebuyers; they are charged higher interest rates and are required, on average, to pay off loans over a shorter period. Some Federal agency programs have helped; others, such as FHA and the federally-chartered FNMA, have made only minor contributions.

2. Production targets

In 1968 Congress set ten-year housing production targets of 26 million units including 6 million for lower income families. No specific allocation was made for rural areas. It can be reasonably inferred, however, that between one-fourth and one-third of the subsidized units, or 1.5 to 2 million, should be provided to lower income rural families over a ten-year period. If one assumes that Section 502's moderate as well as low income programs meet such needs and includes the rental units of Section 515 as well, the programs of FmHA have been running at between one-half and two-thirds of target levels over the past five years.

3. Needs of very low income families

Both Congress and the Administration have indicated from time to time that poverty-level families should receive priority in housing programs. In fact, the interest-credit programs of the Farmers Home Administration are not deep enough subsidies to reach many poverty-level families. As noted earlier, only 12 percent of the families obtaining interest-credit loans in fiscal 1973 had incomes below $4,000.

Repair loans at 1 percent under Section 504 and loans and grants for farm labor housing are intended to serve very low income people. Neither program has received more than nominal appropriations over the past five years. The Administration's proposed budget for fiscal 1975 provided no funds at all for farm labor housing.

The 1974 Housing and Community Development Act permits rent supplements to be paid in behalf of low income families in rural rental housing. To fill a significant part of the housing needs of elderly and other eligible renter families in rural areas it would be necessary not only to provide rent supplement money but to enlarge substantially the rural rental housing program.

APPENDIX

FARMERS HOME ADMINISTRATION—RURAL HOUSING PROGRAMS

Homeownership loans: Section 502 (adequate housing)

Loans can be used to purchase a new or existing structure, or to build, rehabilitate, or relocate an owner-occupied single family dwelling. The loan includes the cost of buying a "minimum but adequate site." Low-and moderate-income families are eligible (there is no specific maximum income limit—levels vary state to state) who cannot obtain credit on reasonable terms elsewhere. Housing must be located in "rural" areas, i.e., places under 20,000 population. Interest credit is available to those eligible. Section 502 loans accounted for almost 90 percent of all FmHA housing loans and grants made in FY 1974.

Home improvement or enlargement loans: Special Section 502

Loans can be made to improve or enlarge existing buildings or to complete one on which substantial construction work already has been done. Title to the property need not be as clear as required under regular Sec. 502 loans. Special Section 502 loans are eligible for interest credit arrangements.

Disaster rural housing loans: Section 502

When a natural disaster damages or destroys rural dwellings or farm buildings, the Disaster Relief Act of 1970 authorizes direct loans to repair or replace the building. Disaster loans carry a lower interest rate than the regular 502 program. Payments may be deferred in hardship cases.

Interest credit program

Most interest credit loans are made under the Sec. 502 homeownership program. The maximum credit which can be provided is that which reduces the effective interest rate on the loan to 1 percent or 20 percent of the family's adjusted income, whichever is less. Such loans are made largely to applicants with adjusted annual incomes of less than $8,000. Additional restrictions are imposed, such as limiting interest credit loans to houses not exceeding 1,200 square feet of living area. These loans can be used only when the needs of the applicant cannot be met with financial assistance from other sources. Interest credit is also available under the rural rental program and the farm labor housing program.

Home repair loans: Section 504

Repair loans are provided to make housing safer and healthier. These are often made for minor repairs such as the addition of cooking or toilet facilities. They carry a 1 percent interest rate for up to 20

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years, with a maximum of $5,000. Those eligible are very low-income owner-occupants whose incomes are too low to qualify for Section 502 assistance.

Rural rental program: Sections 515 and 521

FmHA makes direct loans to finance rental or cooperative housing and related facilities for occupancy by low to moderate income rural families and senior citizens 62 years or older. Sponsors can be nonprofit, profit-oriented, or "limited profit." Profit-oriented borrowers pay the regular FmHA housing rate, while nonprofit sponsors are eligible for interest credits. Rental and occupancy charges for low-income families are based on family income and cannot exceed 25 percent of income.

Farm labor housing loans and grants: Sections 514 and 516

Loans are available at 1 percent interest, for a term of up to 33 years, to buy, build or repair housing for domestic farm labor. Such financing is available only to nonprofit sponsors such as associations of farmers, state and local government agencies, individual farm owners, and private nonprofit organizations including those organized by farm workers. Section 516 authorizes grants to 90 percent of total development cost, less such amounts as can practicably be obtained from other sources.

Rural housing site loans: Sections 523 and 524

Short-term loans are available to public bodies and nonprofit organizations to buy and develop building sites to be used by low and moderate income families. Sites must be sold for use in connection with a Federally-assisted housing program. Interest rates are the same as those on FmHA housing loans. If the lots are to be used in connection with self-help housing, the site loan may carry a 3 percent interest rate.

Technical assistance for self-help housing: Section 523

Programs are funded that involve the cooperative work of family groups which provide a major portion of the labor required to construct their homes. Mortgage credit is made available under the regular Section 502 program, and includes interest credits. Grants can also be made to public bodies and private nonprofit groups to organize and assist families in using the self-help process. Grants can cover making equipment such as power tools available to families, training in construction techniques, and the hiring of construction supervisors to work with families.

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