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Addressing Rural Housing Challenges: What USDA can do[1]

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What is the Issue?

Rural America is changing and so are its housing needs. For low-income rural households, the struggle to access safe, quality, affordable housing is real. Incomes are too low and housing options – both homes for purchase or rent – at affordable prices are limited. These circumstances have worsened in the last ten years, as housing supply has failed to keep up in growing rural communities, and persistent poverty has deepened. Without additional public and private investment, rural families and seniors will continue to struggle to afford decent shelter. The U.S. Department of Agriculture's (USDA) Rural Development agency already helps many rural residents but needs a more effective strategy for deploying its resources to target the most vulnerable people and communities.

What USDA Contributes

USDA is a significant contributor to rural prosperity and housing affordability. Its Rural Housing Service (RHS) assists over 1.2 million homeowners with affordable mortgages and over 400,000 households with quality, affordable rental housing.

USDA helps 150,000 households purchase a home each year, on average, and another 8,500 existing owners make critical repairs to their homes (Figure 1). USDA provides affordable homeownership opportunities to low- and moderate-income households purchasing modest homes in rural communities who otherwise cannot access a bank loan. Direct loans made by USDA, about 9,700 per year, go to households earning up to 80% of their community's median income, and can cover up to 100% of the home's value to fund the purchase, improvements, and repairs. Guaranteed loans – made through qualified lenders but insured against default by the federal government – go to around 140,000 households per year that earn up to 115% of the community's median income. Finally, home repair loans and grants are made to very low-income rural homeowners (Section 504) with grants limited to homeowners age 62 or older.

Over 403,000 households containing over 673,000 people have homes in the 14,770 rental housing properties financed by USDA across rural America (Figure 2). Financing is through direct loans to owners (Section 515 and Section 514 Farm Labor Housing), guaranteed loans made by approved lenders (Section 538), and a small amount of special-purpose grants. Tenant households are generally small, with a high proportion of elderly and disabled residents (60%), and a large majority (90%) of residents earning less than half of their community's median income. USDA also provides rental assistance (Section 521) to help two out of every three tenant households keep their rental payments to no more than 30% of their household income. Thanks to this and other rental assistance programs only a small proportion (13%) of tenant households pay more than 30% of their income on rent.

FIGURE 1: Number of Loans and Grants by Single- Family Program by Fiscal Year, 2009-2015.

Source: USDA Rural Development, various years, Annual Progress Report

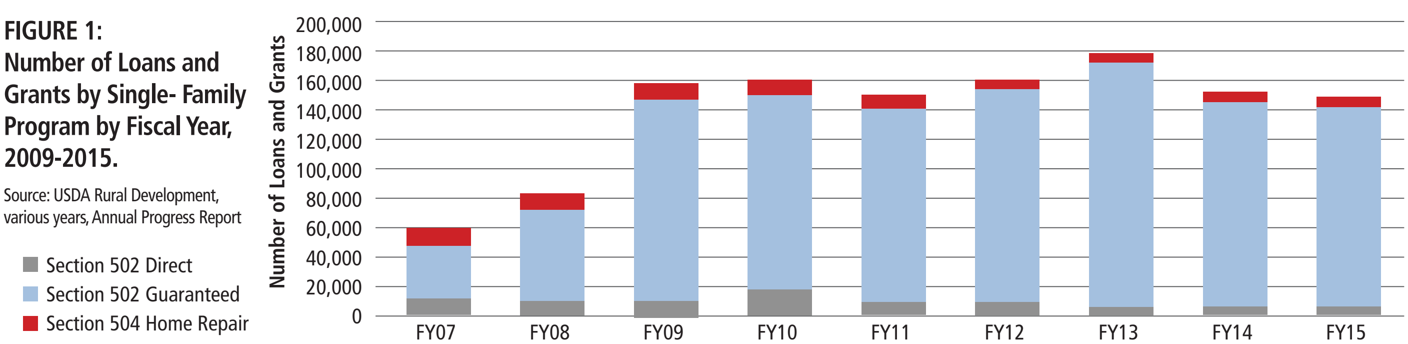
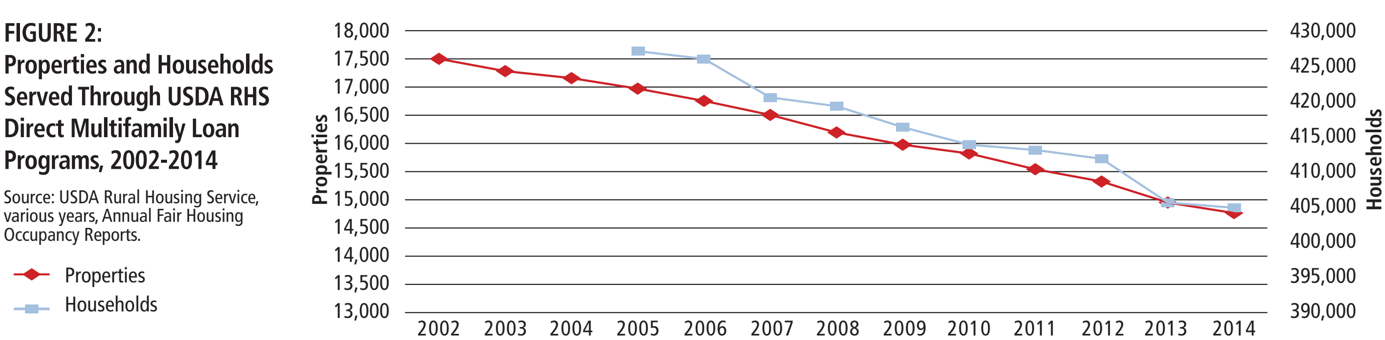


FIGURE 2: Properties and Households Served Through USDA RHS Direct Multifamily Loan Programs, 2002-2014

Source: USDA Rural Housing Service, various years, Annual Fair Housing Occupancy Reports.



Rental Supply Challenges

Over one in four rural renters spends more than half of their income on rent. Rental housing in rural communities can be scarce, and in some communities USDA-financed properties are the primary source of affordable units. But the program that provides the most deeply affordable units (Section 515), and its accompanying rental assistance program (Section 521), has not supported new construction in over 20 years. Existing properties are over 30 years old, on average, and in need of physical revitalization as well as preservation tools to keep them in the affordable rural rental housing programs.

There is also a need for new construction of rental housing in order to replace the aging stock where it is still needed, as well as to serve growing rural markets with severe supply shortages. Over 150 growing counties with communities eligible for USDA housing programs exhibit the most severe rental housing needs. These places have younger, more ethnically and racially diverse residents who experience higher-than-average poverty and unemployment, but in communities with few vacant, available rental homes, let alone federally subsidized ones. As a result, renters here are more likely to live in overcrowded conditions and pay at least 50% of their income for rent.

The newer Section 538 guaranteed loan program has helped finance over 21,000 newly constructed units over the past twenty years – an average rate of just over 1,000 units per year - and layered financing makes deals complex, and tenants of these new units are not eligible for USDA rental assistance and may find rents difficult to afford.

The Homeownership Struggle

Accessing quality single-family homes and the credit to buy them remain key issues in meeting the demand for and supply of quality, affordable housing in rural communities. The rural market has still not recovered from the 2007-2009 mortgage crisis, with home purchase activity still less than half of what it was in 2006.

Supply continues to lag due to construction labor and material shortages and high costs. A lack of developer capacity and community infrastructure can also contribute. Meanwhile, manufactured home production – almost half of the cost of a new site-built home – has dipped significantly over the past twenty years and remains difficult to finance through a standard mortgage.

In response to this growing crisis, the government-sponsored enterprises Fannie Mae and Freddie Mac – institutions that keep mortgage credit flowing to homebuyers by purchasing loans, pooling them together and repackaging them for investors – have developed plans to increase their investments in rural markets and manufactured housing. Time will tell if this helps more private sector housing credit flow into rural communities to bolster homeownership opportunities.

Housing for Diverse People and Places

The diversity of rural markets – from those experiencing rapid or intensifying growth and development, to others showing steady declines in jobs and populations – make them difficult to serve with one-size-fits-all policy solutions. This means a range of housing options are needed in rural communities, from quality rental units – for individuals and families, from single homes to larger multi-unit properties – to first-time homebuyer opportunities, to home repair and modification resources for homeowners aging in place.

Rural housing policy and programs have historically recognized populations and communities that are harder to serve than other rural areas. These include low-income households, the elderly and disabled, and farmworkers, as well as tribal members and lands, colonias, Central Appalachia, the Mississippi Delta region, and persistent poverty areas. Structural barriers vary by place, from waves of industrial restructuring, to inadequate public infrastructure, to institutional racism, and culturally different property ownership models. Even booming towns can lack the capacity and resources to keep up with the needs of growing populations.

Policy Implications

USDA should work together with other federal housing agencies to develop a comprehensive assessment of America's rural housing needs. It should also commission analyses of the impact of USDA's housing programs, examining which people or places are underserved by USDA investments and why. This is the first step toward developing a long-term strategy for targeting critical needs with necessary investments. This may point to places where existing programs need to evolve for greater impact, and where entirely new approaches may be necessary to move the needle on solving the rural housing crisis. Implementing this comprehensive strategy will require new and improved funding, not just for housing, but for other resources necessary for rural prosperity, including employment opportunities, educational institutions, social services, transportation infrastructure, broadband, and more. It will also need the commitment of partners to help plan, finance, and provide these services alongside of USDA.

This will be a hard initiative for which to gain support and funding. There is little culture of coordination around rural issues, even across siloes within USDA, and weak collaboration among federal agencies on rural housing. Little federal research funding goes to exploring rural housing needs or evaluating current program impacts, despite billions of federal investments in rural rental housing and homeownership opportunities. USDA has tweaked programs over time but has had little to work with in terms of both statutory authority and funding.

Over 111 million people live in communities eligible for USDA housing programs. Failure to assess needs and impact, and to strategize and fund solutions leaves these residents and communities unsupported in the midst of a growing crisis. A coordinated and comprehensive response by USDA and its partners could help turn the tide.

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