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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

March 26, 1984

B-214747

The Honorable Jake Garn
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate

Dear Mr. Chairman:

Subject: Income Analysis of Farmers Home Administration Subsidized Rural Homebuyers--1983 (GAO/RCED-84-145)

In accordance with your March 16, 1984, request, we have analyzed the incomes of those rural households who purchased homes under the Farmers Home Administration (FmHA) section 502 homeownership program in fiscal year 1983. As agreed with your staff, we focused our work on the question of what effect new targeting provisions and income limits enacted by Congress in 1983 would have had on the eligibility of those assisted in 1983. We therefore determined the number of 1983 section 502 households who would have qualified for loans under the new requirements and the extent to which loans were targeted to very low-income borrowers.

BACKGROUND

The FmHA section 502 homeownership program provides low interest rate subsidized loans to eligible low-income households, defined as those who earn less than 80 percent of area median income with certain adjustments for family size. Purchasers pay a fixed portion of their income as a housing payment, and FmHA absorbs the difference between that payment and a mortgage payment based on an interest rate related to federal borrowing costs.

On November 17, 1983, the Congress amended section 502 of the Housing Act of 1949 by directing FmHA to target a larger proportion of its loans to very low-income households. Specifically, the Rural Housing Amendments of 1983 stated that, nationwide, not less than 40 percent of section 502 loans were to be made to very low-income families or persons. The amendment defined very low-income households as those whose incomes did not exceed 50 percent of area median income with adjustments for family size. The legislation allowed some variation among states in meeting the national 40 percent requirement, but not less than 30 percent of the loans in each state are to be provided to very low-income households.

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The amendment retains the definition of low-income households as those whose incomes do not exceed 80 percent of area median income, but stipulates that FmHA will no longer set its own income limits. Rather, FmHA is to use income limits developed by the Secretary of Housing and Urban Development (HUD) under the Housing Act of 1937, which set income limits for HUD's section 8 rental housing assistance program. The section 8 income limits differ from those used by FmHA in the past in that they vary to a greater extent with household size--as household size increases, qualifying income rises much more rapidly than under the old limits. For example, in a rural Virginia county, the difference in eligible income under the old FmHA rules between a 2-person and 4-person household was $600 compared with $3,000 under the new rules.

OBJECTIVE, SCOPE, AND METHODOLOGY

To perform our analysis, we obtained information from FmHA on all section 502 loans made in 1983 and the 1983 section 8 income limits. The FmHA section 502 loan data includes information on household income and other demographic data such as household size and number of dependents. From this information, we tabulated the annual incomes of recipient households, adjusted their incomes on the basis of the number of dependents in the household (and elderly status) according to the new FmHA criteria, and compared these incomes to the income limits FmHA would have used in 1983 had the new eligibility rules been in effect. This allowed us to determine what percentage of 1983 section 502 recipients would have qualified for assistance and what percentage would have been of very low income if the new rules had been in effect. We did not verify the income data provided by FmHA. With this one exception, our review was performed in accordance with generally accepted government audit standards.

HOMEBUYER INCOME ANALYSIS

Of 53,466 section 502 household files which we analyzed, 84 percent of these households would have qualified for assistance had the new eligibility criteria been in effect in 1983. The remaining 16 percent would not have qualified for loans because their incomes exceeded the new low-income limits. We also found that about 24 percent of all borrowers would have been classified as very low income in 1983 under the new rules. If the households who would not have qualified under the new rules were excluded from the calculations, then the percentage of those qualified borrowers who would have had very low incomes in 1983 is 28 percent.

Only two states would have exceeded the 40 percent national requirement for very low-income households, while six states would have exceeded the 30 percent minimum for individual states. Statistics on individual states are shown in enclosure I. The table below summarizes the information from individual states on a regional basis. It shows substantial variation from region to region with the greatest degree of income targeting under the new eligibility limits having occurred in the south.

Region	NOT ELIGIBLE: Incomes exceeded 80 percent of area median		ELIGIBLE: LOW INCOME: Incomes did not exceed 80 percent of area median		ELIGIBLE: VERY LOW INCOME[1]: Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Northeast	1,722	22.6	5,913	77.4	1,197	15.7
North Central	2,098	15.8	11,157	84.2	2,896	21.8
South	3,707	14.5	21,889	85.5	7,093	27.7
West	1,183	16.9	5,797	83.1	1,460	20.9
Total	8,710	16.3	44,756	83.7	12,646	23.6

Under the new law, income limits for one to three person households were generally reduced while those for larger households were increased. Thus, some households with fewer than four members would not have been eligible for section 502 loans had the new requirements been in effect in 1983. Conversely, qualifying incomes will rise considerably in some locations under the new law. This will occur because HUD updated its income limits for inflation in 1983 while FmHA continued to use 1980 HUD figures.

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As arranged with your office, we did not obtain written agency comments on this report. As requested by your office, we are sending copies of this report to the Honorable Jamie L. Whitten, Chairman, House Appropriations Committee; the Honorable Thad Cochran, Chairman,

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[1]Percentages do not total across to 100 percent because eligible very low-income households are also included as eligible low-income households.

Subcommittee on Agriculture and Related Agencies, Senate Appropriations Committee; and the Honorable Henry B. Gonzalez, Chairman, Subcommittee on Housing and Community Development, House Committee on Banking, Finance and Urban Affairs. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Ralph Carlone for

J. Dexter Peach
Director

STATE BY STATE COMPARISON OF 1983 SECTION 502 BENEFICIARIES WITH HUD SECTION 8 INCOME LIMITS

	NOT ELIGIBLE		ELIGIBLE			
	Incomes exceeded 80 percent of area median		LOW INCOME Incomes did not exceed 80 percent of area median		VERY LOW INCOME[1] Incomes did not exceed 50 percent of area median	
State	Number	Percent	Number	Percent	Number	Percent
Alabama	167	13.9	1,034	86.0	428	35.6
Alaska	53	33.1	107	66.8	25	15.6
Arizona	66	20.3	259	79.6	69	21.2
Arkansas	212	14.9	1,209	85.0	344	24.2
California	391	21.6	1,413	78.3	286	15.8
Colorado	51	11.5	390	88.4	105	23.8
Connecticut	58	13.1	384	86.8	110	24.8
Delaware	22	18.4	97	81.5	11	9.2
Florida	353	26.7	966	73.2	188	14.2
Georgia	261	18.6	1,139	81.3	256	18.2
Hawaii	22	10.3	191	89.6	39	18.3
Idaho	104	20.5	402	79.4	111	21.9
Illinois	233	14.1	1,410	85.8	391	23.7
Indiana	211	14.3	1,261	85.6	368	25.0
Iowa	201	16.6	1,005	83.3	217	17.9
Kansas	95	19.0	405	81.0	88	17.6

[1]Percentages do not total across to 100 percent because eligible very low-income households are also included as eligible low-income households.

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State	NOT ELIGIBLE: Incomes exceeded 80 percent of area median		ELIGIBLE: LOW INCOME Incomes did not exceed 80 percent of area median		ELIGIBLE: VERY LOW INCOME Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Kentucky	348	15.7	1,860	84.2	498	22.5
Louisiana	127	7.1	1,661	92.8	754	42.1
Maine	416	32.8	852	67.1	148	11.6
Maryland	73	12.4	513	87.5	98	16.7
Massachusetts	73	10.5	622	89.4	159	22.8
Michigan	353	18.3	1,567	81.6	414	21.5
Minnesota	138	18.6	600	81.3	128	17.3
Mississippi	231	7.6	2,807	92.3	1,364	44.8
Missouri	232	12.5	1,622	87.4	401	21.6
Montana	70	16.5	353	83.4	79	18.6
Nebraska	70	15.6	378	84.3	60	13.3
Nevada	30	26.7	82	73.2	21	18.7
New Hampshire	154	23.3	505	76.6	72	10.9
New Jersey	156	19.3	651	80.6	118	14.6
New Mexico	88	16.5	443	83.4	118	22.2
New York	267	23.9	846	76.0	193	17.3
N. Carolina	734	20.7	2,811	79.2	579	16.3
North Dakota	108	20.1	427	79.8	81	15.1
Ohio	148	12.7	1,016	87.2	292	25.0
Oklahoma	127	11.0	1,024	88.9	370	32.1
Oregon	127	15.2	708	84.7	153	18.3

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State	NOT ELIGIBLE: Incomes exceeded 80 percent of area median		ELIGIBLE: LOW INCOME Incomes did not exceed 80 percent of area median		ELIGIBLE: VERY LOW INCOME Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Pennsylvania	382	20.4	1,484	79.5	291	15.5
Rhode Island	14	9.9	127	90.0	21	14.8
S. Carolina	307	19.0	1,304	80.9	263	16.3
South Dakota	78	23.6	252	76.3	33	10.0
Tennessee	295	14.1	1,788	85.8	602	28.9
Texas	237	11.8	1,761	88.1	658	32.9
Utah	58	10.7	480	89.2	142	26.3
Vermont	202	31.3	442	68.6	85	13.1
Virginia	140	10.6	1,174	89.3	415	31.5
Washington	80	10.3	692	89.6	226	29.2
West Virginia	73	8.9	741	91.0	265	32.5
Wisconsin	231	15.9	1,214	84.0	423	29.2
Wyoming	43	13.4	277	86.5	86	26.8