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

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FOR DELIVERY AT
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STATEMENT OF
JOHN H. LUKE, ASSOCIATE DIRECTOR
HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS
RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
ON
OPPORTUNITIES TO REDUCE COSTS AND
IMPROVE TARGETING IN THE FARMERS HOME ADMINISTRATION
SECTION 502 HOUSING LOAN PROGRAM

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to assist your Subcommittee in considering some of the important issues surrounding the Farmers Home Administration (FmHA) section 502 single-family homeownership program. As you may know, we are in the final stages of completing a study of FmHA's efforts to reduce housing costs and better target program assistance to rural households. My remarks today represent preliminary observations on the results of our current study.

The objectives of our study were to determine

--who is benefitting from the housing program and what type of housing assistance they are receiving,

--what actions FmHA has taken to target assistance to lower income households, and

--what opportunities exist to reduce program costs.

To accomplish these objectives, we analyzed FmHA's housing loan activity for fiscal years 1983 and 1984. Specifically, we analyzed data on more than 120,000 housing loans made under the

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section 502 program during these 2 years, obtained information through questionnaires sent to 285 randomly selected FmHA county offices, and visited 15 of the 285 county offices in 15 states. Additionally, we interviewed selected FmHA national, state, district, and county office representatives; builders; realtors; and representatives from local financial institutions. We also talked with other knowledgeable people from rural housing interest groups and the Department of Housing and Urban Development (HUD).

Our research indicates that there is still significant need for housing among low-income rural households (those with incomes less than 80 percent of area median income). These observations are based on Census data, the American Housing Survey, and FmHA data. Although the 1,900 county offices which make loans under the program provide a viable delivery mechanism for housing services, our analysis of FmHA's performance in 1984 shows mixed results. Specifically, FmHA

--increased its assistance to very low-income households (those with incomes less than 50 percent of area median income) from 24 percent in 1983 to 30 percent in 1984,

--made 14 percent fewer housing loans in 1984 than it did in 1983, and

--did not implement housing-cost-reduction measures at the county level which could have enhanced targeting to very low-income households.

There are a variety of measures which might be taken which would help improve program targeting and reduce cost, such as:

--implementing outreach efforts to very low-income households and households living in substandard housing (lacked complete plumbing or overcrowded);

--reducing housing costs by eliminating amenities, matching the number of bedrooms to household size, limiting the amount of living and nonliving areas, and providing financing for more townhouses, duplexes, manufactured/ mobile homes and existing houses from the private market;

--extending the mortgage period from 33 to 38 years;

--modifying the eligibility rules to allow some very low-income borrowers to pay less than 20 percent of their income for housing; and

--changing the procedures used to encourage borrowers, who have sufficient income, to refinance their loans with private credit.

In my statement today, we take no position on whether or not subsidies should continue to be made available to facilitate low and very low-income homeownership under the section 502 program. Rather, if the Congress wishes to continue to provide such subsidies and target assistance to the most needy, there are opportunities to improve targeting and reduce costs.

BACKGROUND

Under the section 502 program, FmHA acts as a direct lender in rural areas. The rate at which FmHA makes loans is referred to as the note rate. Subsidized borrowers pay at least 20 percent of their income toward mortgage principal and interest plus taxes and insurance (PITI). The difference between the borrower's mortgage payment and the payment due at the note rate is a subsidy to the borrower called an interest credit.

As the borrower's income increases, the effective interest rate the borrower pays increases and the subsidy decreases. When the borrower's income increases to a point where the effective interest rate equals the note rate, then the borrower's payment stabilizes.

In recent years the Congress has been concerned with FmHA efforts to minimize the costs of housing subsidized under its programs. In addition, the Congress has placed increasing emphasis on targeting assistance to those most in need of adequate housing in order to make the best use of funds being provided. In this regard, 1980 Census data showed that of 27.5 million total rural households, 6.5 million were very low-income households--those whose incomes do not exceed 50 percent of area median income. In addition, 2.1 million rural households occupied substandard housing units.

As of August 2, 1984, FmHA had about 1 million loans outstanding, with balances of over $21 billion, including 462,000 loans totaling $11.3 billion with interest credit and 635,000 loans totaling $9.8 billion without interest credit.

SECTION 502 BENEFICIARIES AND WHAT THEY PURCHASED

The majority of the section 502 beneficiaries in fiscal year 1984 were white, three or more person households, headed by persons under 35 years of age with a median income of $11,400. They primarily bought new, 3-bedroom homes having an average of 1,080 square feet of living area. The median purchase price of all homes financed in 1984 was approximately $40,700.

Our analysis of FmHA data showed that:

--The majority of homebuyers were under 35 years of age (72 percent), in households with more than two persons (60 percent), and nonminority (80 percent). (See exhibit A.)

--Slightly over half of the homebuyers had incomes between $10,000 and $15,000 (52 percent) while most had less than $5,000 in assets (83 percent). (See exhibit B).

--The majority of units purchased were built or purchased new (53 percent). Most units had three or more bedrooms (86 percent) and were priced between $30,000 and $50,000 (83 percent). (See exhibit C.)

On the basis of our visits to FmHA county offices in 15 states, we found that section 502 borrowers were employed in a wide range of occupations, such as sales clerks, waitresses, teachers, and welders (See exhibit D.)

We also compared the demographic and housing characteristics of section 502 beneficiaries to all rural homebuyers with comparable incomes. Because the incomes of the section 502 homebuyers generally cannot exceed 80 percent of area median income, we obtained data from the American Housing Survey on rural homebuyers with such incomes. The comparison provides some perspective on what similar homebuyers purchased without FmHA subsidies.

On the basis of our review of the American Housing Survey data, we found that 44 percent of the low-income rural homebuyers purchased mobile/manufactured homes and 12 percent bought houses considered substandard. Low-income rural homebuyers were more likely to purchase existing homes (77 percent) and homes with two bedrooms or less (54 percent). (See exhibit E.) In contrast, section 502 homebuyers generally purchased new homes (53 percent) and homes with at least three bedrooms (86 percent).

In comparing the demographic characteristics of the two groups, we found that section 502 households were generally younger and had more family members. Also a greater proportion of the section 502 households were minorities and had higher incomes than other low-income rural homebuyers. (See exhibits F, G, H, and I.)

INCOME TARGETING

The Rural Housing Amendments in the Housing and Urban-Rural Recovery Act of 1983, enacted November 1983, mandated that not less than 40 percent of the housing units financed on a national basis under section 502 and not less than 30 percent of each state's housing units be provided to very low-income people.

In response to this mandate the FmHA national office provided guidelines to county supervisors for increasing the number of housing units financed to very low-income households. These guidelines provided for outreach efforts to identify needy very low-income applicants and a cost-reduction effort to make housing more affordable for households at this lower income level.

As you know, after the 1983 amendments were passed, the Congress began to hear complaints about the way FmHA was implementing the amendments. Specifically, FmHA took the position that the 40-percent target ratio had to be maintained throughout the year. This essentially required that the first two of every five loans had to be made to very low-income households. According to FmHA, a shortage of qualified very low-income applicants in some areas of the country restricted the number of loans that could be made. Hearings were held concerning problems in administering the 40-percent target which, according to FmHA and others, had slowed or shut down the program in some counties.

In response to the concerns, the Congress eased the 40-percent rule temporarily in the July 1984 Supplemental Appropriation. This change, which applied only to fiscal year 1984, required that 30 percent of the funds appropriated be set aside for very low-income people. Further, the Housing and Community Development Technical Amendments Act of 1984 provided that in 1985, 40 percent of funding nationwide and 30 percent of each state's funds must be set aside for very low-income people.

Targeting results in 1984

We found that a greater proportion of section 502 assistance benefitted very low-income households in 1984 than in the previous year--increasing from 24 percent of the housing units in 1983 to 30 percent in 1984. Overall, there was an increase of about 1,440 very low-income loans nationwide. However, while congressional appropriations were the same for both years, total assistance provided by FmHA dropped from 65,000 loans in 1983 to 56,000 in 1984.

This decrease in assistance may have resulted from the approach FmHA used in implementing the 40-percent unit targeting requirement until it was lifted during the last quarter of fiscal year 1984. As a result, 80 percent of total funds appropriated were used and 23 percent were expended for very low-income households. (See exhibit J.) Only 14 states provided 30 percent or more of their loans to very low-income households in 1984. Another 25 states provided from 20 to 29 percent, and 11 states provided less than 20 percent of loans to very low-income households. (See exhibit K.)

Overall, 44 states increased the proportion of loans to very low-income households from 1983 to 1984, but 28 states actually made fewer very low-income loans in 1984. Also, while there was a net increase in 1984 of about 1,440 very low-income loans nationwide, this is largely due to one state which had an increase of about 1,560.

Targeting changes

FmHA will have to make changes in fiscal year 1985 if its very low-income targeting requirement is to be met. A key barrier to assisting very low-income households is their ability to repay their loans. According to one FmHA estimate, 85 percent of very low-income applicants do not have the ability to repay loans. Furthermore, our questionnaire showed that a shortage of eligible very low-income applicants is a barrier to achieving targeting objectives. However, there are some measures FmHA might take to help overcome this barrier. For example, FmHA could

--pursue a more aggressive outreach program. Although the national office encouraged county offices to initiate outreach programs, we found that about half of them did not. Those who made efforts to locate very low-income households in need of housing said such efforts were helpful.

--reduce housing costs which would make housing more affordable and result in substantial savings to the government. Reducing housing costs would (1) lower the income needed to qualify for a loan, (2) lower the payments for some very low-income borrowers who would qualify but would have to pay more than 20 percent of income to meet minimum payments required, and (3) reduce maintenance and utility costs which should help qualify some borrowers. For example, a reduction in house price from $42,000 to $36,000, or about 15 percent, would lower the income needed to purchase a home from $10,100 to $8,700, thus qualifying more very low-income households. (See exhibits L and M.)

--extend the mortgage period from 33 to 38 years for very low-income borrowers. This extension was made possible by the 1983 amendments, but FmHA has not yet revised its regulations to allow implementation. Assuming construction costs had been reduced, this measure would further lower the income needed for a borrower to purchase a $36,000 home from $8,700 to $8,000. (See exhibit N.)

--modify the eligibility rules to allow some very low-income borrowers to pay less than 20 percent of their income for housing. Reduced housing costs and extended mortgage periods can improve repayment ability for very low-income borrowers who would be required to pay more than the minimum 20-percent payment. However, under the current system, very low-income households who cannot afford to pay 20 percent of their incomes for PITI cannot participate in the program although they may have a great need for housing.

FmHA makes little effort to target section 502 funds to households living in substandard housing. The President's Commission on Housing reported in 1982 that about 9.4 percent of rural households occupy inadequate housing. In addition, the 1983 American Housing Survey shows that 12 percent of all low-income rural households purchased substandard housing. Responses to our questionnaire indicated, however, that less than 3 percent of the loans made in 1983 and 1984 went to people who occupied substandard housing as defined by FmHA.

COST REDUCTION

In response to the Rural Housing Amendments of 1983, FmHA proposed a number of measures in January 1984 to reduce housing costs. County supervisors were to use these suggestions to reach desired cost reductions of 15 percent in the average home price which would assist in meeting very low-income targeting goals. These measures included building houses with less living area, eliminating amenities, using less costly alternative housing, and increasing the use of less expensive existing housing.

We found, however, that nationwide, few FmHA county offices implemented these measures. For the most part, the county offices provided financing for the same type of houses in 1984 as in 1983. In addition, in our visits to county offices in 15 states we found little evidence of county supervisors reducing housing costs. Potential cost reduction opportunities that could be explored include:

<u>Reduce living area</u>

While FmHA has an overall ceiling of 1,200 square feet of living area in new homes, it does not have separate limits for 1-, 2-, or 3-bedroom homes. For example, by setting a limit of 960 square feet for a 3-bedroom home and lower limits for 1- and 2-bedroom homes, we estimate that housing costs could be reduced as much as $75 million annually. We developed these limits with assistance of FmHA architects. The limits are based on a FmHA standard plan for a 3-bedroom house containing 960 square feet which has been used in the section 502 program. In addition, the unit-size limits are well above minimum sizes required by HUD and the Department of Defense (DOD) and those recommended by rural housing interest groups. (See exhibit P.)

<u>Reduce nonliving area</u>

Reducing the amount of nonliving area, including garages, carports, and basements could also reduce housing costs. Nationwide statistics for 1984 showed that about 13 percent of FmHA new houses had over 2,000 square feet of total area. We estimate that 56 percent of the new houses had garages or carports and 24 percent had basements. Based on estimates provided by FmHA county offices and homebuilders, eliminating garages, carports, and basements could save as much as $61 million annually. (See exhibit Q.)

Match home size to household size

Of the new houses built in 1984, 64 percent exceeded the current needs of the occupants largely because FmHA has no criteria to match household size to the number of bedrooms in a house. Without occupancy criteria, county supervisors are not likely to disapprove an applicant's request for a house which may exceed his or her needs. As a result, county supervisors routinely approve 3-bedroom houses for single individuals and small households. Using HUD occupancy criteria, we found that if FmHA could better match the number of bedrooms to household size, it could provide many families less costly 2-bedroom houses while reducing new housing costs by as much as $38 million annually. (See exhibit R.)

Reduce features on houses

FmHA county offices currently include air conditioning, decks, patios, half baths, sliding glass doors, bay windows, and paved driveways as features on many new houses. While these features may contribute to appearance, livability, and comfort, their necessity is questionable when considering the substantial subsidies provided. We estimate that costs could be reduced by as much as $25 million if FmHA limited these features. (See exhibit S.)

Increase use of alternative housing

The use of alternative housing styles such as townhouses and duplexes could reduce housing costs by about $3,000 per unit. However, our questionnaire showed that less than 1 percent of FmHA new construction during fiscal year 1984 consisted of either of the two alternative styles. At the 15 county offices we visited, FmHA homebuilders and county officials had no plans to build either town houses or duplexes. However, in some locations we visited, these units were being constructed as part of private sector developments, thus illustrating their potential feasibility.

The Rural Housing Amendments of 1983 also authorized FmHA to finance loans on manufactured/mobile homes in order to reduce costs and serve a greater number of low-income households. At the time of our study, however, FmHA had not finalized regulations allowing county offices to finance these units.

Finance more existing housing from the private market

Although 47 percent of the houses financed by FmHA in 1984 were existing homes, only 15 percent were purchased on the private market. The remaining existing homes were sales from FmHA's inventory of owned properties or assumptions of older FmHA loans. FmHA could reduce housing costs up to $5,000 in some parts of the country by financing more houses from the private market. However, little progress has been made in increasing the use of this market because applicants generally prefer a new house over an existing house. Under FmHA field instructions, county supervisors do not have the authority to disapprove such a choice. County supervisors told us that applicants have little incentive to search the private market for a suitable existing house when they can purchase a new home with the same monthly mortgage payment.

Use modest construction standards

In 1984 FmHA field offices in 17 states used a construction appraisal standard which exceeded the construction quality recommended by the FmHA National Office for new homes. About 21 percent of FmHA new houses were built using this higher standard, and as a result, as much as $31 million in additional costs were likely added to FmHA houses financed in 1984.

According to the National Office, the "fair" standard is the appropriate standard to provide a modest but adequate quality house for low and very low-income borrowers. However, we found that 17 states were using a higher "average" standard in their housing programs. A house of fair quality is simpler in design and lower in cost compared with houses built under the higher average standard. For example, compared to houses rated average, fair quality houses might have a lower roof line, no shutters, minimal roof overhang, and a smaller porch. A FmHA National official said that the use of average instead of the fair standard could add up to $5,000 to the cost of a house.

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The above cost reduction steps could be accomplished without sacrificing construction quality and would still provide section 502 borrowers with modest but adequate housing. However, county supervisors have resisted many of these measures because they believe that the cost-reduction measures would affect future marketability and resale. However, those supervisors we talked to who have financed small houses with limited features have experienced no unusual problems reselling these houses. In addition, some FmHA county offices have waiting lists of up to 1-1/2 years for housing, and at the end of fiscal year 1984, 116,000 applicants were waiting for houses.

COST REDUCTION INCENTIVES

FmHA could provide more incentives to minimize housing costs. But without such incentives, clear guidance and firm limitations on the kind of housing county offices can provide are essential to cost reduction. Under the current system, key parties--the borrower, home builder, and county supervisor--have little incentive to minimize cost. For example:

--Subsidized borrowers generally pay 20 percent of their income for housing, regardless of house price. For example, a borrower with an income of $10,000 would pay $167 a month for a house costing from $15,000 to $40,000. Thus, such a borrower has little incentive to choose a less costly house. Government subsidy costs, however, increase as the cost of the house goes up. In the same example, the monthly government subsidy cost would be only $1 on the $15,000 house but would be $280 on the $40,000 house. (See exhibit O.)

--Builders' profits are generally related to the cost of construction so that they have little incentive to build less costly houses.

--County supervisors generally believe that larger houses are easier to resell if necessary; consequently some are opposed to reducing housing costs.

GRADUATION

Rural housing borrowers are required by law to refinance their loans with private credit when they become financialy able, thereby "graduating" from FmHA credit. Despite initiatives by FmHA, graduation efforts have not been effective. During the 12 month period ending June 30, 1984, FmHA graduated about 3,500 borrowers, or less than 1 percent of the 582,000 borrowers who may have the potential to refinance their loans on the private market. (See exhibit T.)

This low graduation rate has been a concern for some time to FmHA officials. The extent of the graduation problem was documented in a March 1983 report by the Department of Agriculture Office of Inspector General (OIG) and by FmHA internal review teams. The OIG estimated that $1.3 billion in loans could be refinanced according to current FmHA guidelines. FmHA guidelines require that county offices periodically review each borrower's financial status to determine which borrowers can graduate. However, nearly all county supervisors cited one or more barriers that impede graduation efforts. For example:

--County office staff do not have sufficient time to perform graduation reviews.

--Borrowers have a disincentive to graduate because refinancing their loans with private credit sources will increase their monthly mortgage payments and they will have to pay closing costs.

--Private lenders either are reluctant to refinance FmHA loans or will refinance them only as consumer loans with shorter terms.

--County supervisors have a disincentive to graduate borrowers because those who graduate are typically their best borrowers and if they graduate an increase in their delinquency rate can occur.

--U.S. attorneys generally give low priority to pursuing graduation cases referred to them by FmHA.

Because of these barriers at the county office level, the graduation system could be changed to eliminate or neutralize the disincentives that borrowers and county officials now face concerning graduation.

One possible approach would be to utilize a central location, such as the FmHA Finance Center or a private contractor, to initiate all graduations rather than individual county offices. Specifically, the central location would

--mail letters to all borrowers not receiving an interest credit and request that they provide current information on income, debts, and savings and return this information to the central location.

--send followup notices to borrowers until the needed information is provided.

--determine which borrowers appear to be financially able to graduate and mail them notices requesting that they contact the county supervisor regarding graduation.

--provide county offices with information obtained on all borrowers and a list of those borrowers who were notified that they may be capable of refinancing.

The county supervisors could then follow up on such borrowers and either graduate these borrowers or notify the central location of any extenuating circumstances. Most importantly, to reduce borrower resistance, the supervisor could be empowered to rewrite the loan at market interest rate in a form which could be sold in the secondary mortgage market. Those borrowers who fail to cooperate would be threatened with foreclosure as under present policy.

We discussed this approach with FmHA officials who said this approach might be helpful in addressing some of the barriers in the graduation process. If workable, they said it would provide FmHA and its county supervisors with a useful tool in the graduation process. However, they also said that some legislative changes may be needed in order to implement such an approach.

This approach would provide financial information which would enhance the graduation of those borrowers identified in the OIG report as capable of refinancing. The potential savings are large. For example, we estimate that government subsidy payments could be reduced $50 million annually by graduating those borrowers capable of refinancing their loans as identified by the OIG. The ability to rewrite loans in its portfolio would also enhance FmHA's ability to sell the approximately $650 million in above market rate loans it now holds. (See exhibit U.)

Changes could be made in the type of mortgage instrument offered to new borrowers in the section 502 program. FmHA could provide all new borrowers a mortgage that would require them to pay at least 20 percent of their income as long as FmHA provided financing. This change would enhance program equity and provide an incentive for these borrowers to graduate as soon as they are financially able.

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Based on the results of our review to date, FmHA has a variety of alternatives available to reduce costs and target more assistance to needy lower income people in rural areas. Specifically, it could seek more needy households and reduce unit costs to make housing more affordable to very low-income households. Moreover, it could explore eligibility rules to allow needy people, who can not afford housing under the present procedures, to pay less of their incomes for housing. In addition, FmHA could reduce housing costs and save subsidy dollars in several ways. Namely, it could finance smaller, less expensive kinds of housing, match housing to household size and say "no" to applicants who request housing in excess of family needs. Although housing costs could be reduced, there are currently few incentives for either home buyers or builders to do so. Program costs could also be reduced by changing procedures to encourage borrowers who have sufficient income to refinance their loans with private credit. Taken together, our observations indicate that FmHA could target more assistance to the most needy rural households and provide the assistance at less cost.

This completes my prepared statement. My colleagues and I will be happy to respond to any questions.

GENERAL ACCOUNTING OFFICE
EXHIBITS TO ACCOMPANY TESTIMONY
PRESENTED BY JOHN H. LUKE
BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
APRIL 15, 1985

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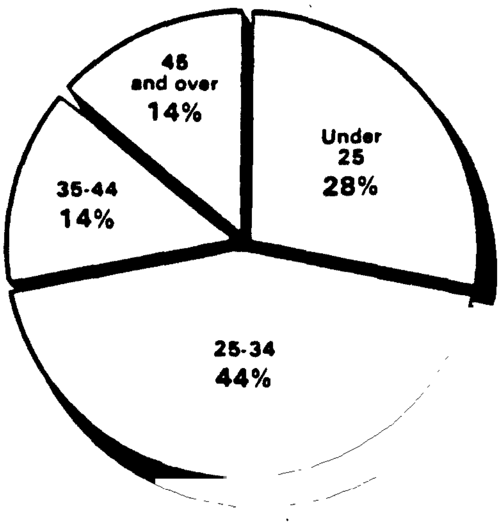
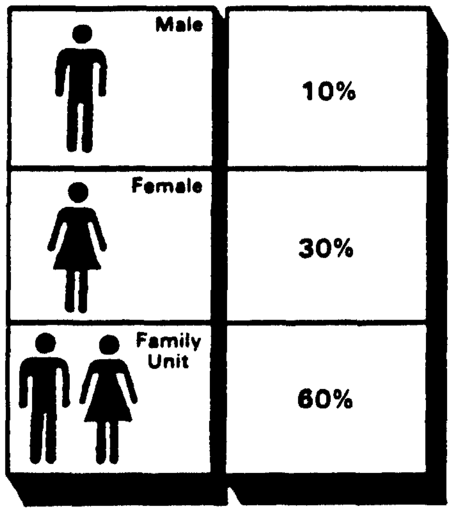
EXHIBIT A

Demographic Characteristics (1984)

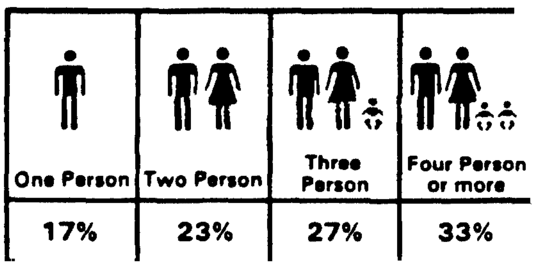
Section 502 Homebuyers Were Generally Under 35 Years Old...



Either Families or Households Headed Solely By Women...



In Households With More Than Two Persons...



And Non-Minority.

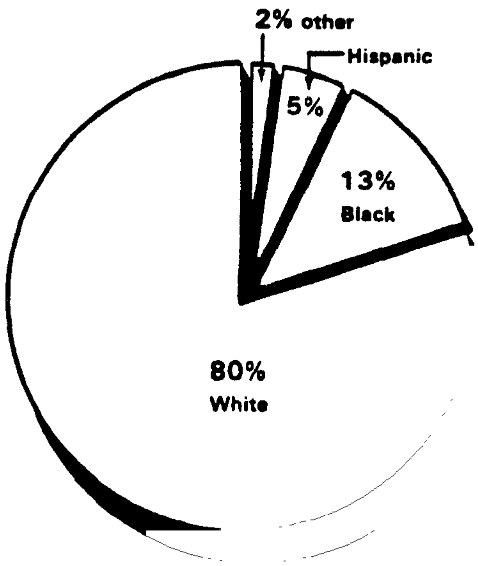
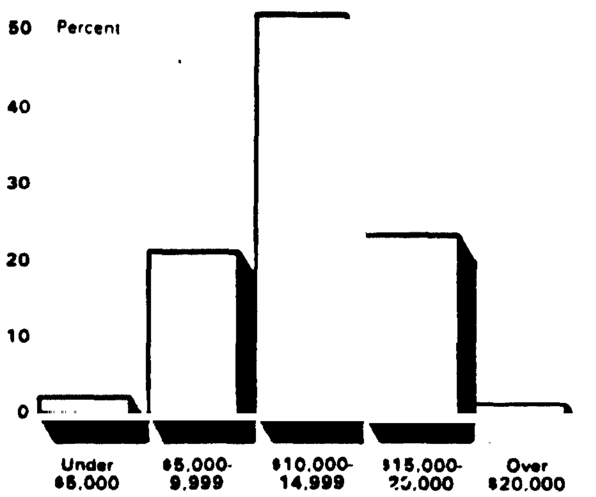


 EXHIBIT B

Financial Characteristics (1984)

Section 502 Homebuyers Generally Had Incomes Between $10,000 and $20,000...



And Modest Assets.

Net Worth

Under $5,000	83%
$5,000-$9,999	14%
$10,000-$15,000	1%
Over $15,000	2%

Their Incomes Fell Between 50% And 80% Of The Median In The Areas Where They Lived.

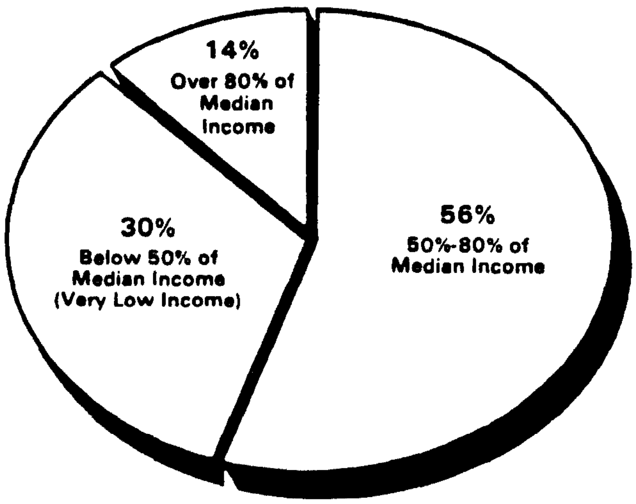
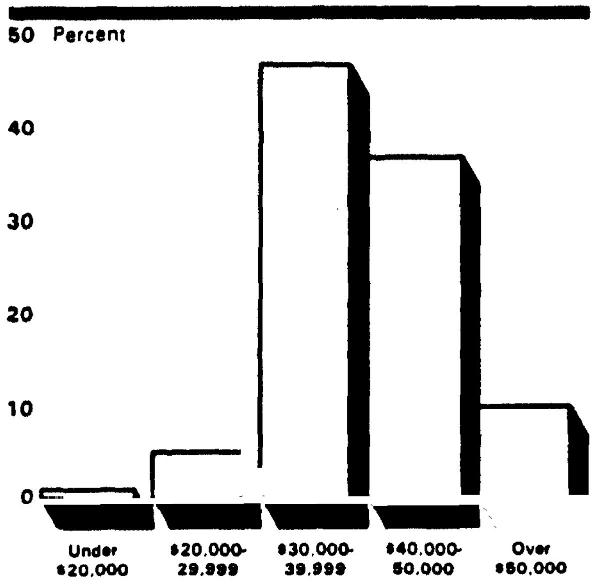


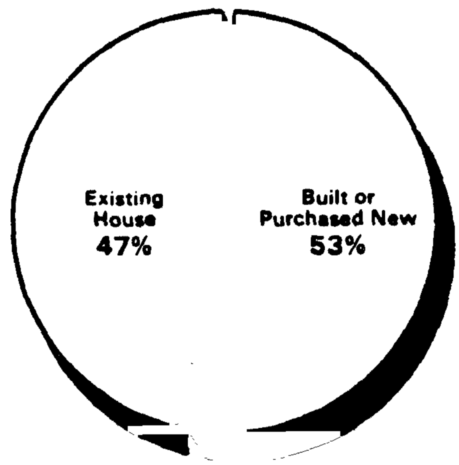
EXHIBIT C

Housing Characteristics (1984)

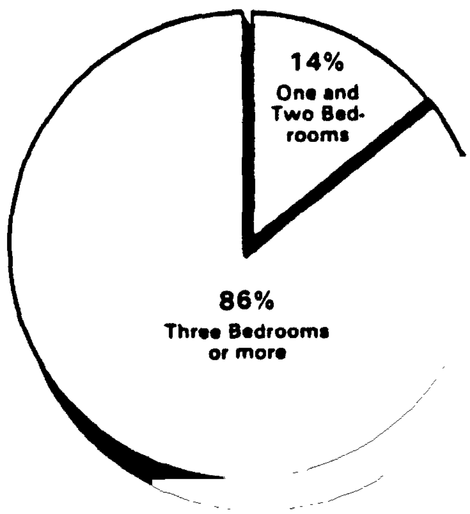
Section 502 Homebuyers Bought Homes Which Were Priced Between $30,000 And $50,000.



The Homes Were More Often New...



With Three Or More Bedrooms...



And Contained Over 1000 Square Feet Of Living Area.

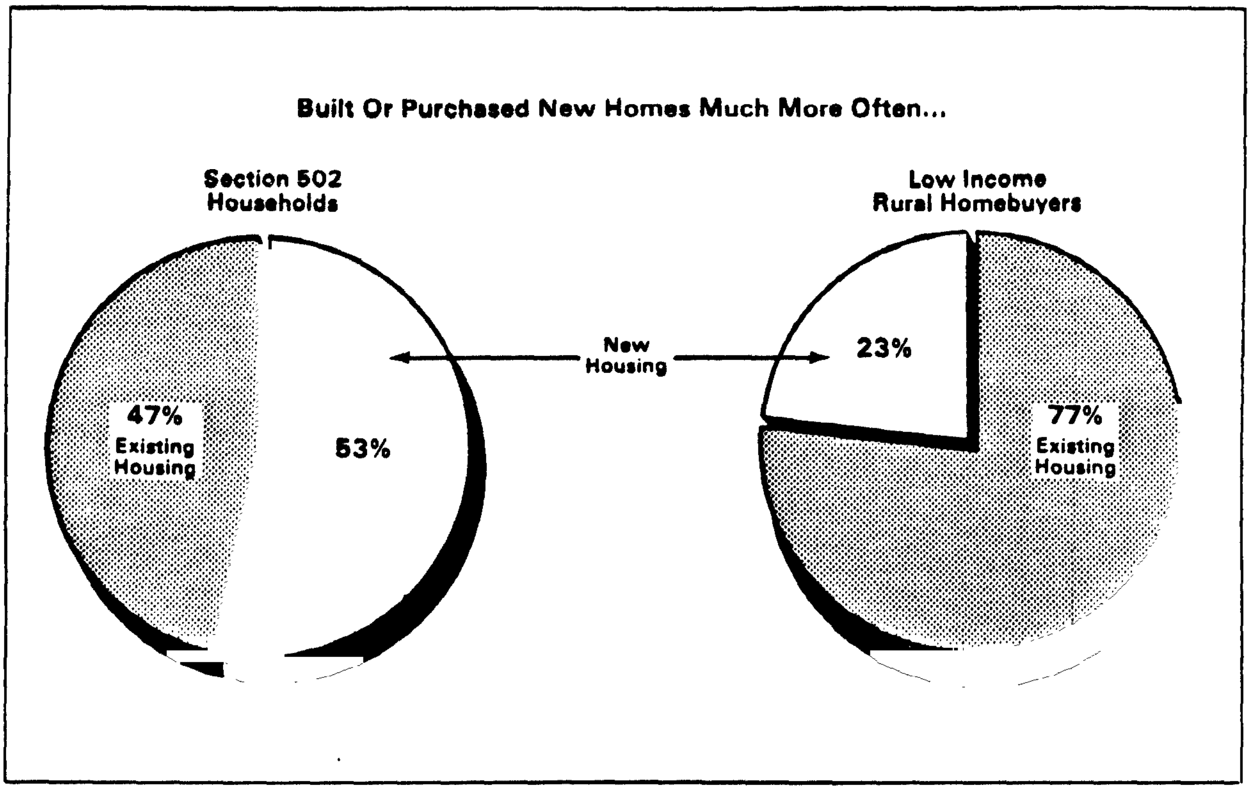
Under 900	8%
900-1000	16%
1001-1100	37%
1101-1200	28%
over-1200	11%

EXHIBIT D

IN THE 15 FmHA COUNTY OFFICES GAO VISITED, SECTION 502 HOMEBUYERS WERE EMPLOYED IN OCCUPATIONS SUCH AS:

School teacher
Mechanic
Motel worker
Secretary
Hair stylist
Dental assistant
Cashier
Brick mason
Harness maker
Electrician
Longshoreman
Band director
Nurse
Construction laborer
Cook
Pipe fitter
Air conditioner repairman
Electrician
Credit Reporter
Government employee
Lobster fisherman
Waitress
Bartender
Bookkeeper
Seamstress
Realtor
Sales clerk
Travel agent
Seed analyst
Bank teller
Counselor
Dog trainer
Fireman
Machinist
Drafter
Factory worker
Technician
Shoe salesman
Store manager
Newspaper reporter
Computer operator
Railroad employee

Compared To Other Low Income Rural Homebuyers, Section 502 Beneficiaries



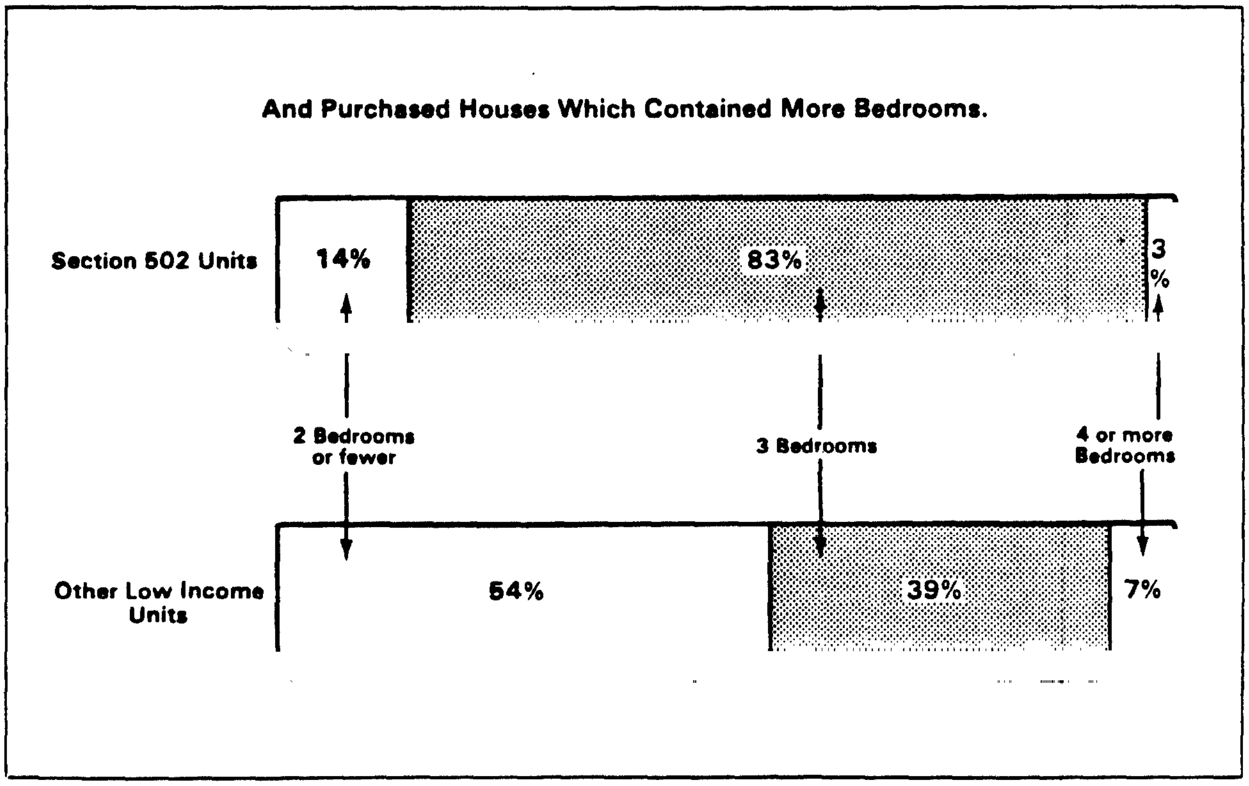


EXHIBIT F

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Section 502 Households Are Younger Than Other Low Income Rural Homebuyers

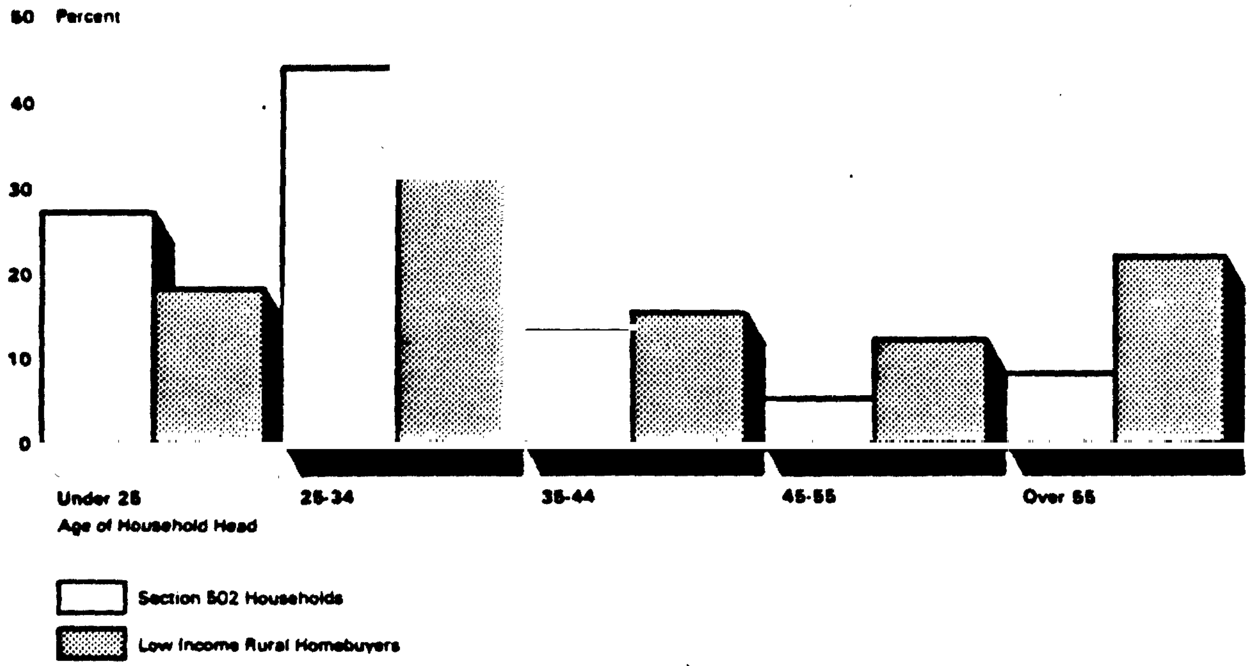


EXHIBIT G

EXHIBIT G

Section 502 Households Are Slightly Larger Than The Households Of Other Low Income Rural Homebuyers

	Persons in Household			
	One Person	Two Person	Three Person	Four Person or more
Section 502 Households	17%	23%	27%	33%
Low Income Rural Homebuyers	17%	28%	21%	34%

EXHIBIT H

EXHIBIT H

Section 502 Households Are More Often Minorities Than Other Low Income Rural Homebuyers

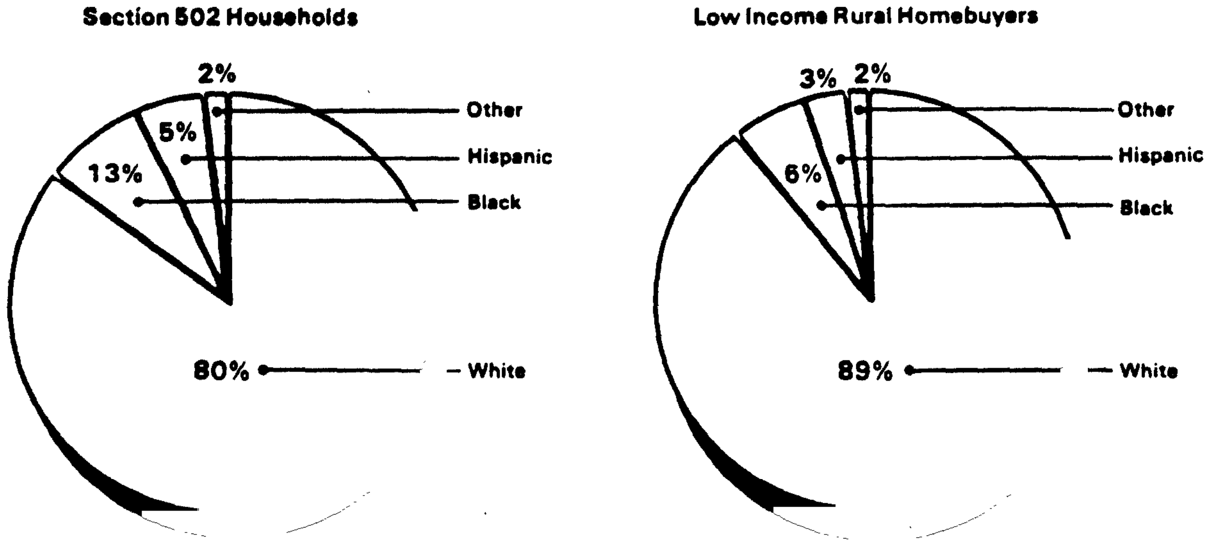
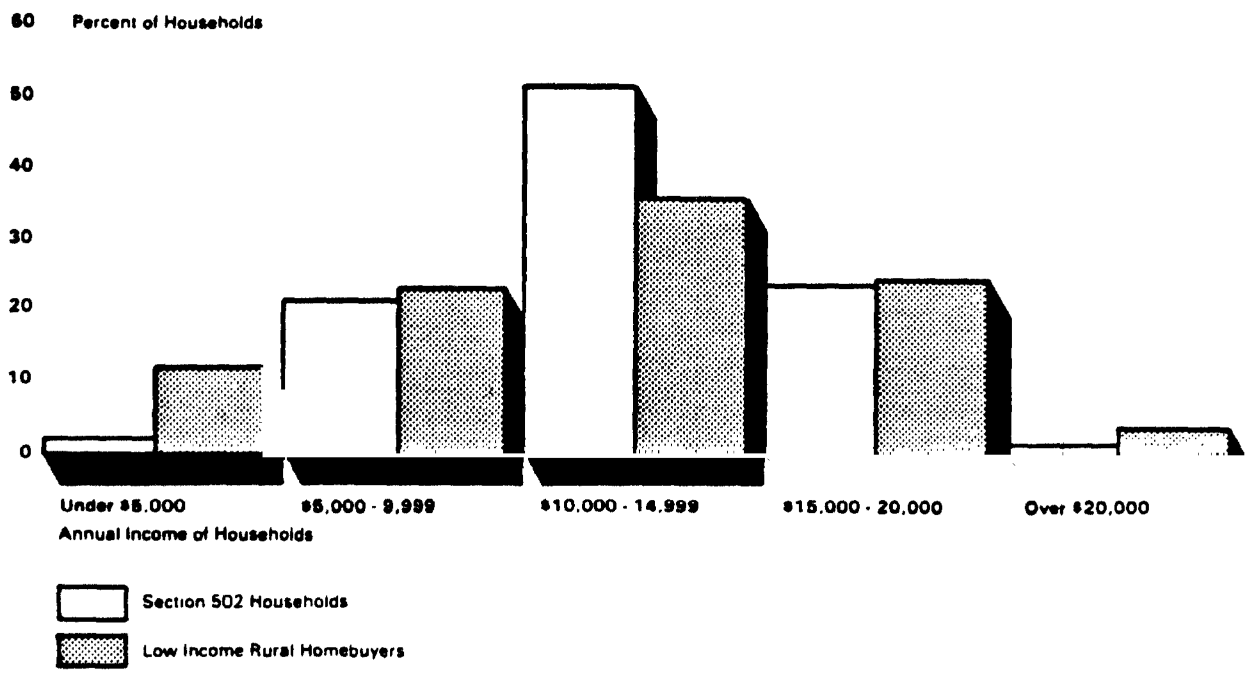


EXHIBIT I

EXHIBIT I

Section 502 Households Have Higher Incomes Than Low Income Rural Homebuyers



SECTION 502 FISCAL YEAR 1984 TARGETING RESULTS

Borrower income category	Funds appropriated		Appropriation spent	Assistance provided			
				Funds used		Loans made	
	Amount	Percent	Percent	Amount	Percent	Number	Percent
Very low	$ 690,000,000	30	23	$ 519,132,000	28	15,519	28
Low	1,610,000,000	70	57	1,318,917,000	72	39,776	72
Total	$2,300,000,000	100	80	$1,838,049,000	100	55,295	100

EXHIBIT J

EXHIBIT K

STATE-BY-STATE COMPARISON OF 1984 SECTION 502 BENEFICIARIES WITH HUD SECTION 8 INCOME LIMITS

State	Incomes exceeded 80 percent of area median		Low income Incomes did not exceed 80 percent of area median		Very low income[a] Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Alabama	113	9.5	1,072	90.4	475	40.0
Alaska	59	34.5	112	65.4	34	19.8
Arizona	10	35.7	18	64.2	4	14.2
Arkansas	186	13.2	1,214	86.7	400	28.5
California	192	17.3	916	82.6	241	21.7
Colorado	48	12.7	329	87.2	108	28.6
Connecticut	30	9.2	296	90.7	114	34.9
Delaware	10	10.1	89	89.8	19	19.1
Florida	183	21.3	674	78.6	207	24.1
Georgia	157	16.6	787	83.3	257	27.2
Hawaii	23	11.4	178	88.5	59	29.3
Idaho	106	23.2	349	76.7	87	19.1
Illinois	97	11.7	729	88.2	246	29.7
Indiana	69	10.9	561	89.0	176	27.9
Iowa	99	13.1	652	86.8	192	25.5
Kansas	58	16.4	295	83.5	97	27.4

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

State	Incomes exceeded 80 percent of area median		Low income Incomes did not exceed 80 percent of area median		Very low income Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Kentucky	100	14.1	606	85.8	215	30.4
Louisiana	54	6.3	797	93.6	326	38.3
Maine	283	24.3	880	75.6	251	21.5
Maryland	48	10.6	404	89.3	113	25.0
Massachusetts	48	11.6	364	88.3	133	32.2
Michigan	334	15.5	1,820	84.4	606	28.1
Minnesota	84	14.0	514	85.9	159	26.5
Mississippi	296	6.7	4,083	93.2	2,097	47.8
Missouri	168	11.8	1,245	88.1	357	25.2
Montana	75	19.6	307	80.3	73	19.1
Nebraska	43	14.0	263	85.9	68	22.2
Nevada	13	33.3	26	66.6	8	20.5
New Hampshire	112	24.3	348	75.6	61	13.2
New Jersey	38	11.4	293	88.5	66	19.9
New Mexico	19	10.2	166	89.7	59	31.8
New York	198	22.9	663	77.0	173	20.0
N. Carolina	475	22.3	1,646	77.6	388	18.2
North Dakota	42	9.9	381	90.0	121	28.6

State	Incomes exceeded 80 percent of area median		Low income Incomes did not exceed 80 percent of area median		Very low income Incomes did not exceed 50 percent of area median	
	Number	Percent	Number	Percent	Number	Percent
Ohio	134	10.3	1,160	89.6	398	30.7
Oklahoma	75	7.6	901	92.3	377	38.6
Oregon	111	15.9	586	84.0	164	23.5
Pennsylvania	256	16.8	1,260	83.1	267	17.6
Rhode Island	14	11.6	106	88.3	30	25.0
S. Carolina	128	16.1	667	83.8	226	28.4
South Dakota	52	23.4	170	76.5	27	12.1
Tennessee	114	12.5	791	87.4	324	35.8
Texas	145	8.8	1,495	91.1	598	36.4
Utah	29	10.1	257	89.8	73	25.5
Vermont	127	29.3	305	70.6	50	11.5
Virginia	149	11.2	1,178	88.7	398	29.9
Washington	78	11.7	588	88.2	173	25.9
West Virginia	46	6.4	670	93.5	273	38.1
Wisconsin	134	13.9	830	86.0	321	33.2
Wyoming	18	11.4	139	88.5	58	36.9

Source: FmHA "Use of Funds" data base.

 EXHIBIT L

INCOME NEEDED AT SELECTED MORTGAGE AMOUNTS

Mortgage amount	Minimum income needed[a]
$46,000	$11,100
44,000	10,600
42,000	10,100
40,000	9,700
38,000	9,200
36,000	8,700

[a]Borrower pays 20 percent of income for PITI and has an effective interest rate of 1 percent.

EXHIBIT M

EFFECT OF 15 PERCENT REDUCTION IN HOUSE PRICE ON BORROWER PAYMENTS IN SELECTED COUNTIES

County/median income	Adj. family income	Percent of area median income	Current house price	Current monthly payment (PITI)	New house price (15 percent reduction)	New monthly payment (PITI)	Reduction in monthly payment
Loudon, TN	$10,650	50	$35,000	$178	$29,750	$178	$ 0
$21,300	9,600	45	"	160	"	160	0
	8,500	40	"	142	"	142	0
	7,450	35	"	141	"	124	17
Pettis, MO	10,500	50	39,500	175	33,575	175	0
$21,000	9,450	45	"	159	"	158	1
	8,400	40	"	159	"	140	19
	7,350	35	"	159	"	136	23
Lexington, SC	12,600	50	40,000	210	34,000	210	0
$25,200	11,350	45	"	189	"	189	0
	10,100	40	"	168	"	168	0
	8,800	35	"	162	"	147	15
Westmoreland, PA	13,550	50	45,000	226	38,250	226	0
$27,100	12,200	45	"	203	"	203	0
	10,850	40	"	182	"	181	1
	9,500	35	"	182	"	158	24
Pierce, WA	13,050	50	53,500	218	45,475	218	0
$26,100	11,750	45	"	216	"	196	20
	10,450	40	"	216	"	184	32
	9,150	35	"	216	"	184	32

EXHIBIT M

 EXHIBIT N

INCOME NEEDED AT SELECTED MORTGAGE AMOUNTS FOR 33-AND 38-YEAR MORTGAGE PERIODS

Mortgage amount	Income needed[a] 33 years	38 years
$50,000	$12,100	$11,100
48,000	11,600	10,600
46,000	11,100	10,200
44,000	10,600	9,800
42,000	10,100	9,300
40,000	9,700	8,900
38,000	9,200	8,400
36,000	8,700	8,000
34,000	8,200	7,500
32,000	7,700	7,100
30,000	7,200	6,700

[a]Borrower pays 20 percent of income and has an effective interest rate of 1 percent.

 EXHIBIT U

EFFECT OF CHANGES IN HOUSE PRICE ON BORROWER PAYMENTS, GOVERNMENT SUBSIDY, AND EFFECTIVE INTEREST RATE FOR A BORROWER WITH A $10,000 INCOME

House price	Monthly borrower payment	Monthly government subsidy	Total monthly payment	Borrowers effective interest rate
				(Percent)
$15,000	$167	$ 1	$168	11-7/8
20,000	167	56	223	8-1/8
25,000	167	112	279	5-3/4
30,000	167	168	335	3-7/8
35,000	167	224	391	2-1/2
40,000	167	280	447	1-1/4
42,000	170	300	470	1

[a]Total monthly payment for PITI with a note rate of 11-7/8 percent. (The FmHA note rate at the time of our review.) Estimates for taxes and insurance were developed using figures provided by FmHA county offices nationwide.

 EXHIBIT P

NEW HOUSES HAVING EXCESS LIVING AREA FISCAL YEAR 1984

FmHA new houses		Living area standards of other federal programs		GAO living area Standards[c]	FmHA houses which exceeded GAO standards[d]
Number of bedrooms	Percent	DOD[a]	HUD[b]	(sq. feet)	(Percent)
		(minimum sq. ft.)			
1	0.2	550	510	770	89
2	11.1	750	600	850	87
3	86.4	960	730	960	90
4 or more	2.3	1080	910	1,130	87

[a]DOD uses these minimum standards to determine the adequacy of off-base housing for its personnel.

[b]HUD uses these minimum standards for planning and designing multi-family housing units.

[c]We developed these standards in conjunction with FmHA architects and used them to assess the adequacy of living area in new houses.

[d]Approximately 89 percent of new houses financed by FmHA in FY 84 had an average of 140 square feet of excess space. Based on questionnaire results from county offices nationwide, about $2,800 could be saved by reducing these houses by this amount which could reduce costs by about $75 million annually on a new housing program of about 30,000 units.

EXHIBIT Q

ESTIMATED ANNUAL COST REDUCTION POTENTIAL IF MAJOR NONLIVING AREA FEATURES ARE ELIMINATED

Nonliving area feature	Percent of FmHA houses with features	Estimated cost of feature	Estimated cost reduction if features eliminated[a]
Basements	24	$3,500	$25,200,000
Garages	33	2,700	26,730,000
Carports	23	1,300	8,970,000
Total			$60,900,000

[a]Cost estimates were developed by using figures provided by FmHA county offices nationwide and homebuilders in 15 states. Savings were computed on a new housing program of 30,000 units.

COMPARISON OF NUMBER OF BEDROOMS IN NEW FmHA HOUSES WITH HUD USAGE STANDARDS, FISCAL YEAR 1984

Size of FmHA households		Number of bedrooms recommended by HUD[a]	Percent of households having excess bedroom capacity[b]
Number of occupants	Percent of households		
1	18	1	99
2	24	2	85
3	27	2	94
4	18	3	1
5	8	3	4
6 or more	5	4 or more	0

[a]HUD recommends that project owners or agents use these standards when assigning tenants to units in HUD-subsidized multifamily projects.

[b]Based on totals in this column, 64 percent of FmHA new houses had excess bedrooms. Using our questionnaire results from county offices nationwide, $2,000 could be saved by eliminating one bedroom per house. Assuming this figure, about $38 million (64 percent x 30,000 new houses x $2,000) in cost reduction would occur if each house having excess bedroom capacity was reduced in size by one bedroom.

 EXHIBIT S

ESTIMATED COST REDUCTION WHICH COULD RESULT FROM ELIMINATING FEATURES ON NEW HOUSES

Feature	Percent of new houses with feature in fiscal year 1983: Percent	Cost of each feature[a]	Potential cost reduction if feature eliminated
Features identified by FmHA			
Decks/patios	8.8	$ 550	$ 1,452,000
Sliding glass doors	14.8	340	1,510,000
Picture/bay windows	16.5	300	1,485,000
Air conditioning	20.1	1,340	8,080,000
1/2 bathrooms	b	800	b
Features identified by GAO			
Excess porches	3.9	540	632,000
Paved driveways	49.0	840	12,348,000
Total			$25,507,000

[a]These estimates were received in a nationwide survey of county offices and projected to a housing program of 30,000 new units.

[b]We did not obtain these estimates.

EXHIBIT T

NUMBER OF SECTION 502 BORROWERS BY STATE HAVING LOANS WITHOUT INTEREST CREDIT AS OF AUGUST 2, 1984

State	Number of borrowers
Alabama	24,756
Alaska	616
Arizona	5,787
Arkansas	21,321
California	10,839
Colorado	4,198
Connecticut	1,739
Delaware	1,914
Florida	17,084
Georgia	23,813
Hawaii	3,154
Idaho	8,099
Illinois	10,287
Indiana	13,134
Iowa	12,298
Kansas	9,315
Kentucky	17,076
Louisiana	13,385
Maine	10,412
Maryland	6,409
Massachusetts	3,105
Michigan	13,564
Minnesota	9,228
Mississippi	34,681
Missouri	15,234
Montana	2,481
Nebraska	5,460
Nevada	669
New Hampshire	2,418
New Jersey	8,656
New Mexico	3,505
New York	19,684
North Carolina	41,647
North Dakota	4,392
Ohio	9,377
Oklahoma	17,584
Oregon	3,567
Pennsylvania	11,213
Rhode Island	552

EXHIBIT I

State	Number of borrowers
South Dakota	5,546
Tennessee	28,382
Texas	25,740
Utah	5,788
Vermont	4,154
Virginia	24,893
Washington	5,074
West Virginia	10,896
Wisconsin	8,730
Wyoming	1,803
Total	568,264
Other areas	
Puerto Rico	11,219
Virgin Island	1,003
West Pacific Territories	1,301
Total	13,523
National total	581,787

EXHIBIT U

UNPAID PRINCIPAL OF LOANS WITHOUT INTEREST CREDIT BY NOTE INTEREST RATE AS OF AUGUST 2, 1984

Note interest rate	Unpaid principal of loans without interest credits
1.000	$ 1,049,381
1.250	12,647
3.000	4,086,715
3.018	26,306
3.250	322
4.000	68,646,485
4.875	82,988
5.000	232,824,181
5.125	107,179,001
5.250	97,817
5.375	69,679
5.750	2,412,030
5.875	19,002
6.000	2,914,908
6.125	17,745
6.250	242,852,136
6.500	14,784,680
6.750	9,680
7.000	13,214
7.125	24,001
7.200	29,821
7.250	1,500,294,313
7.500	1,217,830
7.725	19,940
7.750	61,797,391
8.000	1,841,373,337
8.100	24,530
8.125	619,382,336
8.250	590,392,059
8.500	1,249,050,554
8.625	18,016
8.700	52,266
8.750	539,820,484
9.000	966,250,791
9.250	2,442,368
9.500	69,688,223
10.000	239,796,851
10.250	36,480
10.500	2,871,925
10.750	181,665,019

 EXHIBIT U

Note interest rate	Unpaid principal of loans without interest credits
11.000	118,511,313
11.250	494,397
11.500	253,825,039
11.875	55,781,532
12.000	110,525,243
12.375	67,485
12.500	20,370,949
12.875	62,464
13.000	206,159,875
13.125	24,572,655
13.200	91,067
13.250	334,695,528
13.500	69,203,596
13.750	112,900
14.000	5,264,959
14.500	1,438,132
14.750	93,109
15.000	54,847
15.500	1,152,637
16.000	8,599,062
16.125	15,509
16.500	22,247
17.000	804,447
18.000	104,098
Total	$9,755,370,541[a]

[a]Loans having a note interest rate of 13 percent or higher total $652,384,668