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Report to the Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, House of Representatives

June 1993

RURAL HOUSING

FmHA's Home Loan Program Not Meeting the Needs of All Rural Residents

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GAO

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Resources, Community, and
Economic Development Division

B-251030

June 14, 1993

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing
and Community Development
Committee on Banking, Finance
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review the rural single-family housing program administered by the Farmers Home Administration (FmHA), an agency of the U.S. Department of Agriculture. Under the program, FmHA provides home loans to rural residents who cannot afford to become homeowners through private financing.

Providing housing for the rural poor has been a long-term national goal. Over the years, the eligibility requirements of the program have been broadened to consider more areas as rural. Today, rural areas eligible for program participation may include areas within metropolitan statistical areas (MSA).[1]

Concerned that FmHA's rural single-family housing program may not be meeting the housing needs of the rural poor, you asked us to determine whether funds for the program are disproportionately concentrated in or around metropolitan areas in relation to remote rural areas and, if so, why. In our review, we have categorized those counties eligible for the program that are contained in or are adjacent to MSAs as "in or around metropolitan areas." By contrast, we have categorized counties that are in outlying areas not contained in or adjacent to MSAs as "remote rural areas."

Results in Brief

FmHA's rural single-family housing program funds are concentrated in and around MSAs in amounts that are disproportionately high in relation to the rural population and the number of substandard rural housing units in these areas—two factors that, among others, are used by FmHA to determine housing need. Remote rural areas, on the other hand, receive a disproportionately low amount of program funds in relation to their housing needs. For example, during a 5-year period that ended

[1]In most parts of the country, an MSA is a county or group of contiguous counties that comes under the economic and social influence of a city with a population of 50,000 or more. In the six New England States, however, MSAs are defined in terms of cities and towns.

September 30, 1991, eligible rural counties in or around Missouri's MSAS received about 76 percent of the state's program funds ($110 million) even though they contained about 56 percent of the state's rural population and 51 percent of the state's substandard rural housing units. During the same period, Missouri's remote rural areas received about 24 percent of the state's program funds ($36 million), but they contained about 44 percent and 49 percent of the state's rural population and substandard rural housing units, respectively. The concentration of program funds in and around MSAs has long characterized this program. In response, the Congress has taken actions to ensure that remote rural areas are better served. It has authorized grant programs (1) to cover the difference when the cost to construct houses is higher than the market value in remote rural areas and (2) to publicize and promote the availability of program funds through outreach efforts. However, funds have not been appropriated to cover the difference between the market value of homes and the cost to build them, and FmHA's regulation to implement the outreach effort will not be issued until June 1993.

FmHA officials identified three factors as contributing to the concentration of FmHA's housing program funds in and around MSAS. First, program income limits established on a county-by-county basis are too low in some areas. Second, housing approval criteria are subjectively applied by FmHA officials. Third, FmHA's policy not to finance new construction when the cost to build houses exceeds the market value of the houses has influenced the low demand for program funds in remote rural areas. The extent to which these factors influence the demand for program funds in remote rural areas is unknown. However, FmHA officials contend that two of the factors, low income limits and the subjective application of housing approval criteria, may have the greatest influence on the concentration of program funds.

Background

Under the Housing Act of 1949, the Congress established a national goal that every American—including the rural poor—should have decent, safe, and sanitary housing. Section 502 of the act, as amended (42 U.S.C. 1471), authorizes FmHA to make loans for modest-sized single-family homes to families in rural America with very low, low, and moderate incomes.

Two criteria must be met before FmHA can approve a loan. First, the applicant must meet eligibility requirements, such as having an income that meets the program's income limitations, a good credit history, and the ability to meet the loan repayment terms. Second, the house selected for purchase must meet FmHA's standards for modest, decent, safe, and sanitary housing. (See app. I for additional program information.)

Program funds appropriated by the Congress are distributed every year by FmHA using an allocation formula. This formula is based on each state's need for rural single-family housing as determined by the state's percentage of the nation's (1) population, (2) rural occupied substandard housing units, and (3) households that are below 80 percent of the area's median income.[2] State FmHA offices use the same allocation formula to distribute funds to district offices within each state. (See app. II for FmHA's allocation formula and process.) FmHA uses census data to determine the rural population and the number of substandard housing units. However, because FmHA's definition of rural under the program differs from the Bureau of the Census' definition, the data are modified to bring them closely in line with the program's definition. During the last quarter of each fiscal year, FmHA's national and state offices pool unobligated funds and make them available wherever there is a demand for loans.

Rural Areas Close to Metropolitan Locations Receive a Higher Proportion of Program Funds

The amounts lent under FmHA's single-family housing program tend to be concentrated in and around MSAS. The concentration of program funds in these areas is disproportionately high in relation to the areas' need for housing. For our review, we defined concentration as a condition in which a disproportionately large amount of program funds is spent in a county in relation to the size of the county's rural population and the number of substandard rural housing units it contains—two factors that are applied to FmHA's formula for determining housing need and allocating program funds. We did not use a third factor—income—that is applied to two other criteria in FmHA's allocation formula because of questions the Department of Housing and Urban Development (HUD) has raised about the reliability and accuracy of the income data used in some rural areas. According to HUD, income data for rural areas tend to be understated and less reliable the further away the rural areas are from metropolitan locations. We measured the concentration of program funds by the dollar value of loans, not the number of loans. Therefore, if the purchase price of houses is higher in and around MSAS than in remote rural areas, then the disparity between the two areas, measured by the number of loans, would not be as great. (See app. III for additional details on the scope and methodology of our work.) Remote rural areas receive a disproportionately low share of program funds compared with rural areas in and around MSAS in relation to

[2]According to the Bureau of the Census, a substandard housing unit is an occupied housing unit that lacks complete plumbing facilities and/or has more than one person per room.

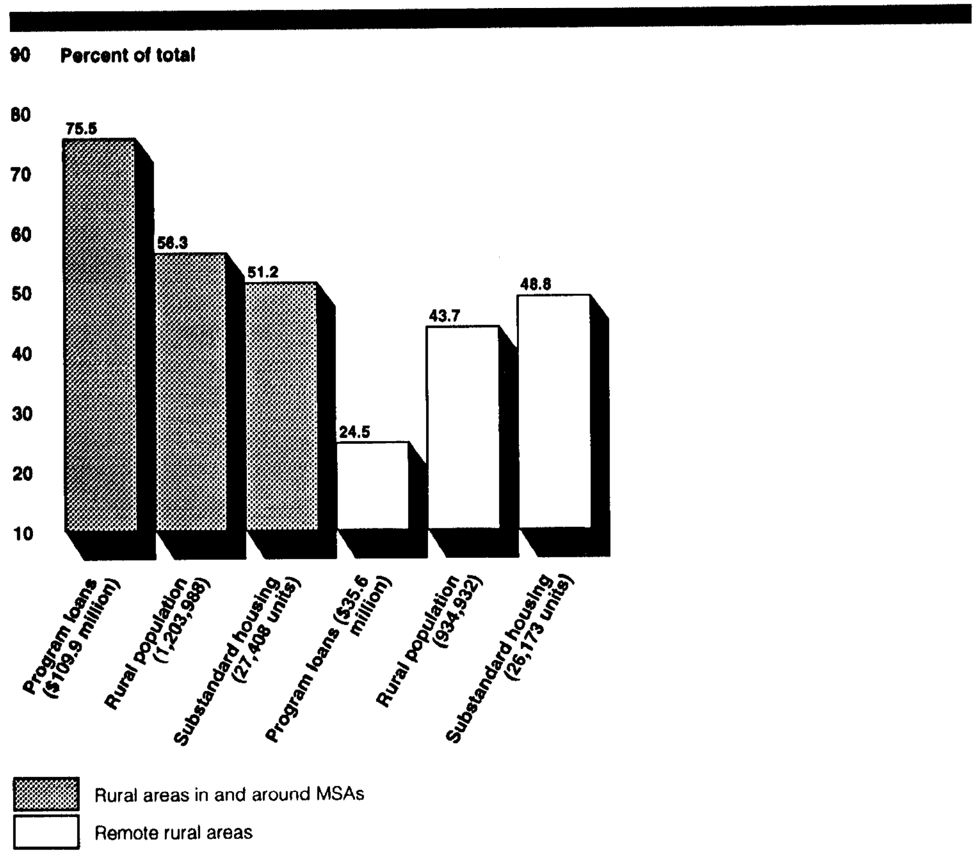
each area's need. The concentration of program funds in and around MSAS has been long-standing, and the Congress recently enacted legislation to target underserved rural areas and to ensure a more equitable distribution of program funds in these areas. However, these legislative provisions have not yet been implemented.

Program Funds Are Concentrated in and Around Metropolitan Areas

Program funds lent in 14 states from 1987 through 1991 were concentrated in and around MSAS.[3] During this period, these states received 45 percent ($2.7 billion) of the program funds allocated nationwide ($6 billion). A relatively small number of counties located in or around MSAS received a large share of their respective state program funds. Furthermore, the percentage of the total program funds that these counties received was higher than the percentage of the total rural population and substandard rural housing units that these counties contained. As shown in table IV.1, for those counties in and around MSAS that are included among the 10 counties that received the highest amount of program funds in each of the 14 states, the percent of program funds ranged from a low of 4.9 percent to a high of 74.1 percent of the respective total program funds in the state. However, the percentage of the state's rural population and substandard rural housing units contained in these counties ranged from 3.5 percent to 46.9 percent for rural population and 4.2 percent to 49.6 percent for substandard rural housing. Conversely, the remote rural areas in these 14 states received a disproportionately low percentage of program funds in relation to the rural population and substandard rural housing units contained in these areas. Figure 1 shows this pattern of concentration and disproportion in the expenditure of program funds between these two types of rural areas in 1 of the 14 states—Missouri.

[3]The 14 states included in our review were California, Connecticut, Florida, Iowa, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, North Carolina, Pennsylvania, Tennessee, Texas, and Washington. These states were generally selected on the basis of the amount of funds allocated, the loan activity within the state, and the geographic location of the state.

Figure 1: Comparison of Program Funds Used In and Around MSAs and In Remote Rural Areas In Relation to Housing Needs In Missouri, Fiscal Years 1987 Through 1991



Note: Analysis is based on the entire state: 50 counties are in or around MSAs and 64 are in remote rural areas.

As shown in figure 1, eligible rural counties in and around Missouri's MSAS contained an estimated 56 percent of the state's rural population and 51 percent of the state's substandard rural housing, but they received approximately 76 percent of the state's program funds.

In each of these 14 states, a considerable amount of program funds was lent in and around the state's most populous city or largest MSA. For example, Iowa's Polk County, which encompasses the state capital of Des Moines and is part of an MSA, received over a 5-year period the highest amount of program funds of any county in the state—$17.6 million, or 15.6 percent of all state funds. Polk County—which, along with two adjacent counties, Warren and Dallas, represents the Des Moines MSA—contained about 5 percent of the state's rural population and 5 percent of its substandard rural housing units but received over 25 percent of the state's program funds during the 5-year period. However, all 49 remote rural counties in Iowa, which collectively contain 43.5 percent of the rural population and 44.3 percent of the substandard rural housing units in the state, obligated only 29.6 percent ($33.5 million) of the state's program funds. Similarly, Cass County, which is in the Kansas City MSA, received the largest amount of program funds ($12.6 million, or about 8.5 percent of the state total) of any one county in Missouri even though it had only 1.8 percent and 1.2 percent of the state's rural population and substandard rural housing units, respectively. Conversely, the state's 64 remote rural counties, which contained almost 44 percent of the rural population and about 49 percent of the substandard rural housing units in the state, received just over 24 percent of the state's program funds.

The concentration of program funds in and around MSAs is not limited to these 14 states but occurs nationwide. For the 100 counties nationwide that received the highest amount of program funds in fiscal year 1991, 84 were located in or around MSAs, while only 16 were located in remote rural areas. Appendix IV illustrates the general location of these counties (see fig. IV.1) and lists these 100 counties (see table IV.2). All told, these 100 counties received $331.6 million of program funds in fiscal year 1991, which accounted for over 25 percent of all fiscal year 1991 appropriated program funds. Of this $331.6 million, $285 million, or about 86 percent of the total program funds, was used in these 84 counties. Overall, these counties contain approximately 9 percent of the nation's rural population and 7 percent of the nation's substandard rural housing units.

The 84 counties in or around MSAs received a disproportionately high percentage of statewide program funds in relation to the percentage of the state's rural population and substandard rural housing units they contained. The percent of program funds used in these 84 counties ranged from a low of 8.1 percent to a high of 67.3 percent of the total program funds in their respective states. The percentage of the state's rural population and substandard rural housing units that these 84 counties contained varied, ranging from less than 1 percent to 38.9 percent for rural population and from 0 to 45.1 percent for substandard rural housing. For example, 4 of Washington State's 39 counties—which are part of or constitute an MSA and are included in the 84 counties—received over $12 million in program funds, or about 47 percent of the state's total program funds in fiscal year 1991, even though these 4 counties had 21 percent of the rural population and 17 percent of the substandard rural housing units in the state. On the other hand, all 10 of the state's remote rural counties—none of which are included among the 100 counties that received the most funds nationwide—received funds totaling $2.6 million, or about 18 percent of the state's total expenditures in fiscal year 1991, even though these counties contained 36 percent and 43 percent of the state's rural population and substandard rural housing units, respectively (see fig. IV.2). A similar concentration of funds occurred in other states that contained 1 or more of the 84 counties that received the most program funds and that were located in or around MSAS. For example, in Florida and Minnesota, program activity was heavy surrounding the urban areas of Orlando and Minneapolis/St. Paul, respectively.

In contrast to the 100 counties that received the most program funds, at least 359 counties—almost 12 percent of all counties nationwide—that could have granted loans did not use any program funds during fiscal year 1991.[4] A majority of these counties—209—were located in remote rural areas, while 150 were in or around MSAS. Appendix IV illustrates the general location of these counties (see fig. IV.1) and lists the counties that did not make any loans during fiscal year 1991 (see table IV.2).

FmHA is aware that loans made under the program are concentrated in and around MSAS. Agency officials in 3 of the 14 states we visited—Iowa, Missouri, and Minnesota—acknowledged that program funds have been concentrated and continue to be concentrated in these areas. However, they pointed out that loans made in these areas are within the program's legal authority because of the current statutory definition of rural. FmHA's single-family housing program director concurred with the state officials and acknowledged that the concentration of loans in and around MSAS is not just limited to these three states but exists nationwide.

The concentration of program funds in and around MSAS has not been limited to the 5-year period we reviewed but has existed for many years. As long ago as 1980, we reported that families in remote rural areas were not benefiting from federal housing programs to the same extent as rural families living in and around metropolitan areas.[5] At that time, we estimated that about 58 percent of FmHA's rural single-family housing loans

[4]This figure is understated because FmHA's data base listed only counties that made at least one loan between 1987 and 1991. It did not list counties that did not make any loans during this period.

[5]Ways of Providing a Fairer Share of Federal Housing Support to Rural Areas (CED-80-1, Mar. 28, 1980).

made between 1950 and 1977 were for housing assistance in and around metropolitan locations.

Congressional Action Targets Underserved Rural Areas

Because certain geographical areas, such as remote rural areas, were being underserved by FmHA's single-family housing program, the Congress included two provisions in the Cranston-Gonzalez National Affordable Housing Act to ensure that these areas received a more equitable share of program funds.

The first provision specifically targets underserved remote rural areas where the cost to construct houses is higher than the market value of houses. For such situations, this provision provides for a grant program, subject to appropriations, to cover the difference between the lower market value and the higher cost to build the home.

The second provision targets 100 underserved counties that had severe unmet housing needs in both fiscal years 1991 and 1992. Excluding the 11 counties in Puerto Rico that were not included in our review, 53 of the remaining 89 underserved counties were in remote rural areas. (App. VIII lists these targeted counties for fiscal year 1991, the amounts obligated, and each county's location.) The purpose of this provision is to improve the quality of affordable housing in communities that have extremely high concentrations of poverty and substandard housing and that were underserved by FmHA's rural housing program. To help the 100 underserved counties, the act established an outreach program to publicize and promote the availability of funds and a grant program to provide grants to community-based housing organizations and local governments to assist in the preparation of housing assistance applications.

Although funds have not been appropriated to carry out the grant program under the first provision, $2.5 million annually was appropriated in fiscal years 1992 and 1993 for the 100 underserved counties targeted under the second provision. However, FmHA has not expended any of these funds because the regulation and instructions for implementing the second provision have not been finalized and distributed to FmHA's field offices. FmHA's single-family housing program director estimated that the regulation for fully implementing the second provision should be completed and implemented by June 1993.

Various Factors Affect Loan Concentration

FmHA officials identified three factors as contributing to the concentration of FmHA's single-family loans in and around MSAs. These factors, which the officials said adversely impact the demand for program loans in remote rural areas, are

- low program income limits for remote rural areas,
- subjective application of housing criteria used to qualify homes for program participation, and
- FmHA's policy not to finance new homes when the cost to build them exceeds their market value.

The extent to which each of these factors influence the demand for housing loans in remote rural areas is unknown. However, FmHA headquarters, state, and county officials we met with believe that, on the basis of their experience in the program, the low income limits and the subjective application of housing criteria tend to have the greatest impact on loan demand.

Income Limits Hinder Remote Rural Families From Qualifying for the Program

FmHA officials in the three states we visited told us that the income limits for remote rural areas are set too low and make it difficult for families in remote rural areas—as opposed to families in and around MSAs—who are in need of decent, safe, and sanitary housing to qualify for the program.[6] As a result, these officials believe that under the HUD-generated income limits, applicants in remote rural areas who qualify for the program are typically single individuals, single parents, and single-income families because their incomes usually do not exceed the income limits. Consequently, in order for a two-salary family in a remote rural area to qualify for the program, both wage earners would have to have very low incomes, according to these officials.

For example, 29 of North Carolina's 100 counties are classified as remote rural. Twenty of these 29 counties use the state's nonmetropolitan income limits; for a family of two, the low-income limit is $19,050. Therefore, a working couple residing in any of the state's remote rural counties in which both members earn $4.90 per hour—slightly over the minimum wage of $4.35 an hour—would not qualify in these 20 remote rural counties because the family's income would be $20,384—$1,334 over the

[6]FmHA uses income limits established by HUD. HUD provides FmHA with income limits on a county-by-county basis for both the low- and very low-income limits by household size. The limits for very low and low incomes are set by using 50 and 80 percent, respectively, of the county's median income or a state's nonmetropolitan median income, whichever is higher.

low-income limit.[7] Families with such an income also would not qualify in 5 of the remaining counties that use the county median income to arrive at income limits.

FmHA's single-family housing program director stated that low-income limits in remote rural areas are generally a problem nationwide. He believes that the low-income limits are a major factor contributing to the tendency for the program funds to be concentrated in and around MSAs where the qualifying income limits are higher. (App. V provides additional details on low-income limits.) Furthermore, headquarters and state program officials believe that income limits must be raised in order to increase the demand for loans in remote rural areas. The officials said that increasing these limits could increase the demand for the program in remote rural areas and could help fulfill the need for decent, safe, and sanitary housing in those areas.

We were unable to obtain any data demonstrating that income limits in remote rural areas were set too low in relation to the income limits for rural areas in and around MSAs. Because of this and other factors that can impact the concentration of program funds, we are uncertain whether raising the income limits in remote rural areas would increase the demand for loans in these areas and completely and adequately address the concentration of program funds in and around MSAs.

Application of Housing Standards Restricts the Supply of Eligible Housing in Remote Rural Areas

Even when applicants in remote rural areas meet the program's eligibility criteria, they face another obstacle—finding suitable housing that complies with FmHA's standards. While these standards are set by FmHA's national office in general terms for modest, decent, safe, and sanitary housing, implementation is left up to the various FmHA state offices. For the states we visited, the manner in which each FmHA state office and county officials interpret and implement these standards has led to variations in the type and number of houses that qualify for participation in the program. For example, the FmHA state office in Missouri allows one deviation from the standards, such as allowing a fireplace in an existing house. However, houses in Iowa that have a fireplace are considered ineligible for participation in the program. FmHA's single-family housing director acknowledged that interpretations of the standards vary from state to state.

[7]Income was calculated on the assumption that each person worked 40 hours a week or 2,080 hours a year: \$4.90 per hour x 2,080 hours/year x 2 wage earners = \$20,384.

According to the FmHA officials and local realtors we met during our review, the subjective application of FmHA housing standards in remote rural areas reduces the number of houses that can qualify for the program. This restriction inhibits the use of funds in remote rural areas and allows for an increased number of loans in and around MSAs because the latter areas have a larger supply of qualifying houses, according to FmHA officials.

However, FmHA is revising its criteria for determining which houses are eligible for program participation. To ensure uniformity in determining a house's eligibility for the program, FmHA is establishing a price cap measure in which a house would qualify for the program if the house's purchase price did not exceed the price cap and if the house met minimum standards. This measure would eliminate the subjective application of FmHA housing standards and minimize the consideration of specific amenities in determining whether a house is modest, decent, safe, and sanitary. (App. VI provides additional information on the application of housing criteria and FmHA's proposed price cap measure.) FmHA plans to implement this price cap policy during 1994.

FmHA Prohibits the Financing of New Homes Whose Construction Cost Exceeds Their Market Value

FmHA's policy prohibits the financing of houses when the cost to build a new house or finance an existing one would exceed its market value.[8] The purpose of this policy is to limit FmHA's risk of incurring a loss by lending money on a property that is worth less than the loan amount. FmHA state and county officials told us that financing new houses in remote rural areas occurs infrequently because the cost to build usually exceeds the house's market value. These officials and local realtors also told us that FmHA's reluctance to approve the construction of new houses in these instances contributes to FmHA's making fewer loans in remote rural areas and influences the concentration of loans in and around MSAs.

In the states we visited, few new homes have been constructed in remote rural areas under the program. Instead, new homes constructed under the program have been built in and around MSAs, where market values are easier to determine and are comparable to the cost of new construction. For example, much of the new construction in Iowa has occurred in subdivisions just outside Des Moines and Iowa City—in Polk County and Johnson County, which are part of two separate MSAs. Similar patterns of

[8]When the cost to build or purchase a house exceeds the market value, FmHA can approve a loan up to the house's market value if the purchaser makes up the difference between the lower market value and the higher cost of the house. Nevertheless, it is questionable whether rural residents at the very-low- and low-income levels would be able to make up this difference.

new construction occurred in MSAs surrounding Minneapolis/St. Paul, Minnesota, and near St. Louis, Springfield, and Kansas City, Missouri.

Low Loan Demand Results in Reallocation of Unused Program Funds

Program funds unobligated by the last fiscal quarter of each year are pooled and reallocated within the state where demand still exists, which is usually in and around MSAs. Similarly, moneys held in reserve at the national level, plus any unused state funds, are also pooled during the last quarter and disbursed to states with outstanding demands.

For fiscal years 1987 through 1991, FmHA reallocated about $1.1 billion, or 20.6 percent, of the funds originally allocated under its need-based formula, as appendix VII shows (see table VII.1). As a result of this reallocation, 31 states received more than their original funding allocation (see table VII.2) and 19 states forfeited portions of their original allocation (see table VII.3).

In regard to this reallocation, state FmHA housing officials in the three states we visited said their primary mission is to obligate the funds they receive through the initial allocation and then to secure additional program funds through the reallocation process to serve any further unmet demand. FmHA's single-family housing program director and state and county officials told us that the reallocation process directs program funds toward areas with higher loan demands—which, they told us, are usually rural areas in and around MSAs. One state official observed that his state would not have been able to continue to make loans at its previous high level if loans could not be made in and around MSAs.

Conclusions

In 1980, we reported that remote rural areas in America had the worst housing conditions but received a smaller percentage of housing assistance than areas close to urban centers. Little has changed in the distribution of program funds between those areas since that time. Program funds lent under FmHA's single-family housing program continue to be concentrated in and around MSAs and are disproportionately higher than the need for housing in these areas warrants. Remote rural areas, on the other hand, receive a disproportionately low amount of program funds in relation to their housing needs. The Congress has recognized that some rural areas, such as remote rural areas, are underserved by the program, and it has taken actions to serve these areas better. However, these actions have not yet contributed to improving the situation because they have not been fully implemented.

Three factors have been identified as contributing to the relatively low demand for program funds in remote rural areas and the resulting concentration of rural housing loans in areas in and around MSAs. These factors can adversely impact the level of demand for program funds in remote rural areas. FmHA officials told us that two of these factors—low income limits and the subjective application of housing approval criteria—have the greatest impact on lowering the demand for program funds in remote rural areas and concentrating these funds in and around MSAs. However, the extent to which each of these factors influence the demand for program funds in remote rural areas is unknown.

Agency Comments

We discussed the factual information and conclusions contained in a draft of this report with the Acting Deputy Administrator for Program Operations and with other FmHA housing officials. They generally agreed with the report's contents and conclusions, and we have incorporated their comments and suggestions where appropriate. However, as your office requested, we did not obtain written agency comments on a draft of this report.

We performed our review between September 1991 and March 1993 in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional committees; the Secretary of Agriculture; the Administrator, FmHA; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

If you would like additional information on this report, please call me at (202) 512-7631. Major contributors to this report are listed in appendix IX.

Sincerely yours,

Judy England-Joseph

Judy A. England-Joseph
Director, Housing and Community
Development Issues

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Abbreviations

FmHA	Farmers Home Administration
HUD	Department of Housing and Urban Development
MSA	Metropolitan Statistical Area

FmHA'S Rural Single-Family Housing Program

FmHA's single-family homeownership program was initially authorized under the National Housing Act of 1949 to provide housing loans to farmers. Over the years, the law has been amended to broaden eligibility requirements as to who may participate and which areas are considered rural under the program. Today, under FmHA's single-family housing program, rural residents who are not farmers may also participate in the program. Also, rural areas eligible for program participation include any open country or any other town, city, or other place that is not part of or associated with an urban area and that meets certain population criteria. Such areas are considered rural if they (1) have a population not in excess of 2,500 or (2) have a population in excess of 2,500 but not greater than 10,000 if the area is rural in character, or (3) have a population in excess of 10,000 people but not larger than 20,000 if the area is not contained in a Metropolitan Statistical Area (MSA) and has a serious lack of mortgage credit for lower- and moderate-income households, as determined by the Secretaries of HUD and Agriculture.[1] To participate in the program, two criteria must be met prior to a loan eligibility approval decision—applicant approval and house approval.

Program Eligibility

FmHA's single-family housing loans bring homeownership to those who could not otherwise afford it. To qualify for a loan, an individual's adjusted annual income must fall within an income standard, called an income limit, for a very low-, low-, or moderate-income family in their respective county of residence. In a four-person household, very low income is defined as not more than 50 percent of a county's median income, while low income is not more than 80 percent of the county's median income. Moderate income is determined by adding $5,500 to the low-income limit.

Eligible applicants must also (1) be without decent, safe, and sanitary housing; (2) be unable to obtain decent housing through any other lender on reasonable terms; (3) be a citizen of the United States or a noncitizen legally admitted for permanent residences or on indefinite parole to the United States; (4) have a sufficient income to meet living expenses, taxes, insurance, maintenance, and the monthly mortgage payment; and (5) have a credit history that indicates a reasonable willingness to meet obligations as they come due.[2] In addition to an applicant meeting these eligibility

[1]Under the law, areas classified as "rural" prior to October 1, 1990, and determined not to be rural as a result of data received from the 1990 census shall continue to be classified as rural until receipt of data from the 2000 census if (1) the area has a population in excess of 10,000 but not in excess of 25,000, (2) is rural in character, and (3) has a serious lack of mortgage credit.

[2]The manner in which FmHA determines that an applicant is unable to obtain financing through any other lender on reasonable terms is left to the discretion of each county supervisor.

requirements, the house selected by the applicant must also meet established FmHA standards that ensure it is decent, safe, and sanitary; modest in size, design, and cost; and does not exceed the housing needs of the applicant.

Applicant and Home Approval Process

Applications for single-family housing loans are processed through the FmHA county office in the county where the property is located. Initially, applicants are prescreened by FmHA staff for basic information such as income and family size. If the applicant is within the income limits, which vary depending on family size and classification as very low, low, or moderate income, the applicant is given an application package. This package, used to determine an applicant's financial condition, can be completed by the applicant—with or without the assistance of FmHA county office personnel—or by a builder, developer, real estate broker, or nonprofit group on behalf of the applicant to facilitate processing. Once completed, the application is submitted to the FmHA county office along with a fee from the applicant to secure a credit report. On the basis of the application, credit report, and other financial institution information obtained by FmHA, the county supervisor determines if the applicant is eligible for participation in the program.

In addition to an applicant's eligibility, the selected house must also be approved by FmHA. After an applicant is deemed eligible for the program and submits a purchase agreement for a house to the county office, the unit is inspected by FmHA to determine if it meets FmHA's requirements that it is adequate, modest, decent, safe, and sanitary. If the proposed house meets these standards, the FmHA county supervisor grants final approval for the loan so the borrower may purchase the house.

Loan Terms

The term of an FmHA single-family home loan is 33 years at a fixed interest rate based on the cost of federal government borrowing. However, loan terms may be extended up to a maximum of 38 years for applicants whose adjusted annual income does not exceed 60 percent of the area's median income and who need the extra term to show repayment ability. Loans may not require a downpayment and FmHA can lend up to 100 percent of the FmHA market property value. Interest credit, which may reduce the effective interest rate to as low as 1 percent, is available to qualified very low- and low-income borrowers in order to make the housing payments fall within their means.

Program Funding Levels

During the 5 fiscal years included in our review (1987-1991), FmHA approved 166,855 loans totalling over $6 billion. As shown in table I.1, funding for the program has remained fairly constant in dollars obligated for loans and number of loans made during this period at approximately $1.2 billion annually.

Table I.1: Value and Number of Loans Made Under FmHA's Single-Family Housing Program During Fiscal Years 1987 Through 1991

Fiscal year	Program funds obligated[a] (000)	Number of loans[a]
1987	$1,092,979	32,284
1988	1,217,943	34,001
1989	1,214,551	34,123
1990	1,274,642	35,248
1991	1,226,670	31,199
Total	**$6,026,785**	**166,855**

[a]Figures exclude Puerto Rico, U.S. Virgin Islands, and Pacific trust territories. Program funds obligated are in nominal dollars.

FmHA's Allocation Formula and Process for Distributing Program Funds

FmHA distributes program funds annually for its rural single-family housing program using an allocation formula. The formula generates a percentage for each state that is then used to allocate each year's appropriated funds. FmHA uses the following five criteria as part of its formula to determine this percentage:

- State's percentage of the number of rural substandard housing units occupied nationwide,
- State's percentage of the national rural population,
- State's percentage of the national rural population in places with less than 2,500 population,
- State's percentage of the national number of rural households between 50 and 80 percent of the area median income, and
- State's percentage of the national number of rural households below 50 percent of the area median income.

Each criterion is assigned a weight according to its relevance in determining housing needs. The weight factors assigned to each criterion are administratively decided by FmHA officials. For criterion 1, the weight factor is 25 percent; 2 is 10 percent; 3 is 15 percent; 4 is 30 percent; and 5 is 20 percent. The percentage representing each criterion is multiplied by the weight factor and summed to arrive at a basic factor for each state.

The basic state factor is then multiplied by the available funds to determine the amount of dollars each state will receive. This allocation process is designed to ensure that program resources are distributed on an equitable basis to those states whose rural poor have a need for housing.

FmHA's National Office apportions all but about 15 percent of its annual program funds. The portion withheld is used for administrative expenses and as a reserve for emergency situations until the last quarter of each fiscal year. During fiscal year 1987 through 1991, the Congress appropriated over $6.4 billion for FmHA's rural single-family housing program. (See table II.1 for the allocation of these funds.)

Table II.1: Allocation of Program Funds for Fiscal Years 1987 Through 1991

In thousands of dollars

Amount appropriated	$6,460,475
Amounts withheld:	
Administration expenses	<58,246>
Reserve	<881,647>
Amount available for allocation	5,520,582
Amount allocated to territories	<145,743>
Amount allocated to states	$5,374,839

In turn, FmHA state offices use the same allocation formula and census data for their states to distribute available funds to its district offices. Although funds are not allocated below the district level, funds are made available to FmHA's county offices within their respective districts on a first-come, first-serve basis as individual loans are approved.

Objectives, Scope, and Methodology

The Chairman, Subcommittee on Housing and Community Development, House Committee on Housing, Banking and Community Development, requested that we determine whether program funds in FmHA's rural single-family housing program are concentrated in and around metropolitan areas. The Chairman also asked us to identify the reasons for that concentration if such concentration exists.

To address the question of loan concentration, we obtained from FmHA's National Office in Washington, D.C., information on the components of the allocation formula used to distribute program funds among the states on an annual basis and on the amount of funds allocated to the states over a 5-year period—fiscal years 1987 through 1991. We also acquired from the National Office rural population figures and substandard rural housing statistics from 1980—the latest available data—that were compiled by the Bureau of the Census and provided to FmHA for its program. From FmHA's Finance Center in St. Louis, Missouri, we obtained the amount of loans actually made in counties nationwide under the program for fiscal year 1991 and the amount of loans made in 14 states for the 5-year period from fiscal years 1987 through 1991.[1]

Using fiscal year 1991 data, we selected the 100 counties nationwide that obligated the highest amount of program funds. We also identified those counties that did not obligate any program funds during that year. We then determined the location of these counties—whether located in or around an MSA or in a remote rural area—in conjunction with their respective rural populations and number of substandard rural housing units to determine if loans were concentrated in certain areas.

To determine whether or not the concentration of program funds has been longstanding, we examined and analyzed where loans were made by FmHA in conjunction with the rural population and number of substandard rural housing units in 14 states over the 5-year period. The 14 states were generally selected based on the amount of funds allocated, the loan activity within the states, and the geographic location of the states. Together, these states obligated 45 percent of the $6 billion in loans granted under the program during fiscal years 1987-1991.

To determine the possible reasons for concentration, we reviewed FmHA's regulations, instruction manuals, rural housing legislation, and other documents to determine procedures used in allocating and disbursing

[1]The 14 states included in our review were California, Connecticut, Florida, Iowa, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, North Carolina, Pennsylvania, Tennessee, Texas, and Washington.

funds, approving loan applicants, and qualifying homes eligible for program participation. In addition, we examined how 3 of the 14 states—Iowa, Missouri, and Minnesota—utilized income limits to qualify potential applicants and applied FmHA's housing standards to approve a house's program eligibility.[2] We interviewed FmHA National Office personnel on the application of these standards and visited 3 district offices and 10 county offices in these 3 states. In addition, we interviewed local FmHA officials and real estate agents in these states. We also reviewed several legislative housing initiatives designed to ensure that program funds reach remote rural areas.

[2]These three states were selected because of the different approaches they used in applying FmHA's standards for approving houses for the program and because of their close geographic proximity.

Information on Counties That Obligated the Highest Dollar Amount of Program Funds and Counties That Did Not Obligate Any Program Funds

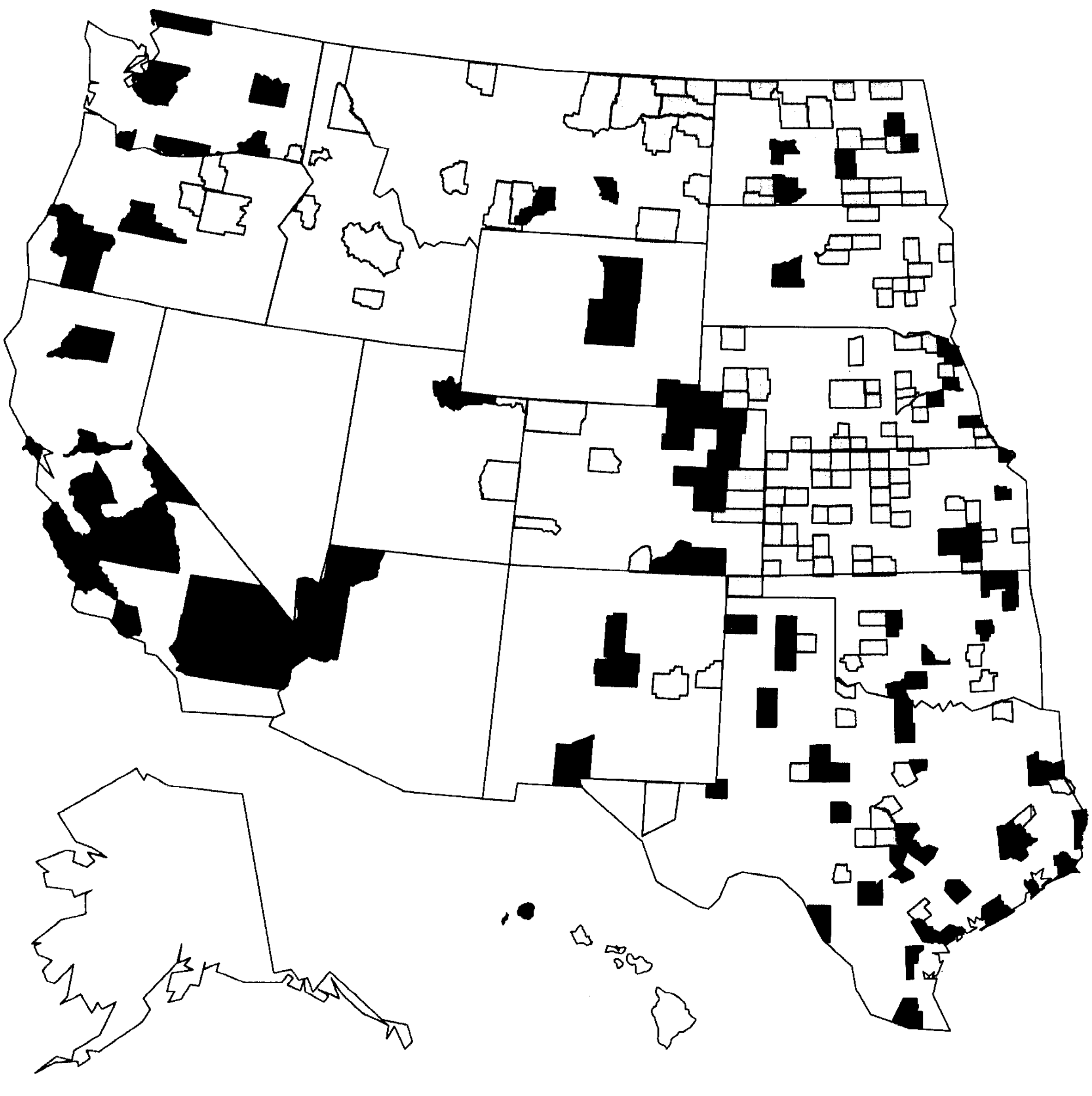
Table IV.1: Percentage of State Program Funds, In Relation to Rural Populations and Substandard Housing, Received by Selected Counties In and Around MSAs, Fiscal Years 1987 Through 1991

State	Counties in and around MSA[a]	Total counties in state	Percent of county program funds to state total	Percent of county rural population state total	Percent of county substandard housing to state total
California	10	58	59.1	39.1	49.6
Connecticut	2[b]	8	74.1	23.9	38.2
Florida	10	67	51.6	28.9	24.7
Iowa	7	99	37.3	9.0	7.6
Massachusetts	2[b]	14	55.3	32.5	34.6
Michigan	9	83	38.5	21.0	17.6
Minnesota	10	87	60.9	18.1	16.6
Missouri	8	114	41.4	12.3	16.2
Mississippi	2	82	4.9	3.5	4.2
North Carolina	9	100	37.5	14.2	9.4
Pennsylvania	10	67	48.8	27.6	23.6
Tennessee	6	95	16.1	8.5	7.8
Texas	8	254	31.7	7.4	12.7
Washington	9	39	67.0	46.9	39.9
Total	**102**	**1,167**			

[a]For each state, we only included those counties in and around MSAs that were among the 10 counties that received the highest amount of program funds.

[b]Since New England states define MSAs by cities or towns rather than by county, virtually every county in Connecticut (which contains 8 counties total) and Massachusetts (14 total) is in or around an MSA. Therefore, for both these states, we only included the two counties that received the highest amount of program funds.

Figure IV.1: 100 Counties With the Highest Dollar Amount of Loans Obligated and 359 Counties That Did Not Obligate Any Loans During Fiscal Year 1991



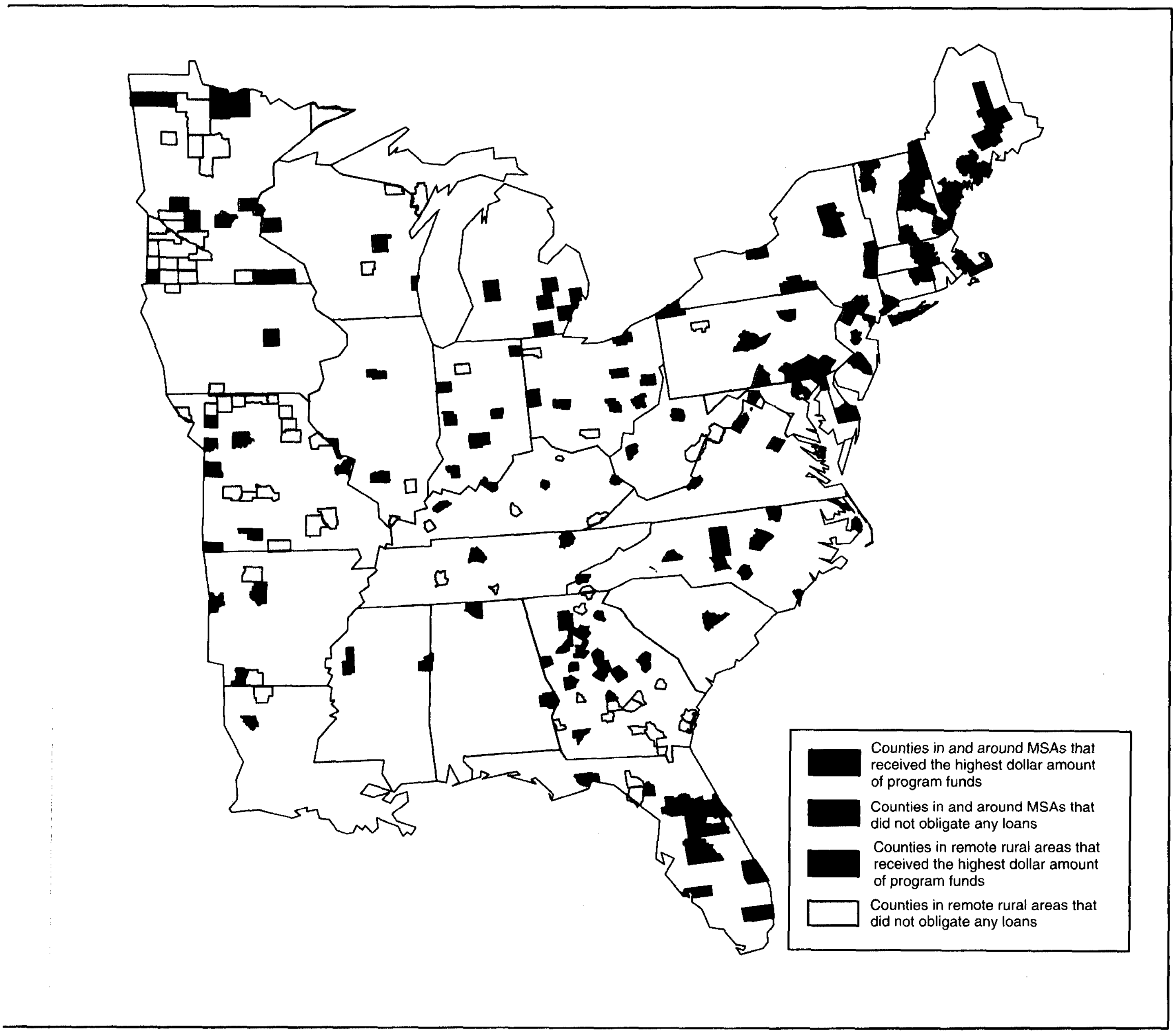

Counties in and around MSAs that received the highest dollar amount of program funds
Counties in and around MSAs that did not obligate any loans
Counties in remote rural areas that received the highest dollar amount of program funds
Counties in remote rural areas that did not obligate any loans

Table IV.2: 100 Counties With the Highest Dollar Amount of Loans in Fiscal Year 1991 and Their Classification (Listed in Order of Dollars Received)

			Classification of county		
State	County	Dollar value of loans obligated	MSA	Around MSA	Remote rural
California	Riverside	$9,290,700	X		
Florida	Polk	8,481,170	X		
Massachusetts	Worcester	8,453,410		X	
Pennsylvania	Lancaster	8,416,490	X		
Connecticut	Windham	7,336,330		X	
Hawaii	Kauai	6,396,300			X
Maine	Cumberland	5,442,400		X	
Alabama	Limestone	5,403,510		X	
North Carolina	Wake	5,187,300		X	
Maine	York	4,781,640		X	
Indiana	Monroe	4,631,920	X		
California	Merced	4,629,570	X		
Minnesota	Chisago	4,604,520	X		
California	Monterey	4,335,600	X		
Pennsylvania	Franklin	4,334,130		X	
Pennsylvania	Chester	4,253,400	X		
Michigan	Livingston	4,143,090	X		
Ohio	Clark	4,039,070	X		
Florida	Marion	3,912,250	X		
Pennsylvania	Centre	3,855,870	X		
Indiana	De Kalb	3,752,430	X		
Maine	Penobscot	3,714,580		X	
Minnesota	Isanti	3,700,750	X		
Virginia	Spotsylvania	3,695,050		X	
Maine	Knox	3,656,240			X
Arkansas	Pope	3,616,440			X
Pennsylvania	York	3,602,870	X		
Missouri	Cass	3,580,430	X		
New Hampshire	Rockingham	3,519,580		X	
Pennsylvania	Erie	3,503,268	X		
New York	Suffolk	3,445,410	X		
California	Stanislaus	3,368,960	X		
Washington	Clark	3,368,800	X		
Washington	Whatcom	3,306,810	X		

(continued)

			Classification of county		
State	County	Dollar value of loans obligated	MSA	Around MSA	Remote rural
Ohio	Darke	3,293,000		X	
Kansas	Douglas	3,275,680	X		
New York	Tioga	3,272,590	X		
Kentucky	Jessamine	3,233,150	X		
Arkansas	Sebastian	3,226,400	X		
New Jersey	Sussex	3,099,000	X		
California	Sacramento	3,091,080	X		
Washington	Pierce	3,069,020	X		
Maine	Kennebec	3,053,590			X
Georgia	Henry	3,047,530	X		
New Jersey	Burlington	3,003,710	X		
Oregon	Douglas	3,001,250		X	
Oregon	Deschutes	2,911,290		X	
Mississippi	Lowndes	2,910,370			X
Vermont	Franklin	2,892,000		X	
Michigan	Lenawee	2,868,100		X	
Massachusetts	Plymouth	2,866,210	X		
Missouri	Clay	2,858,380	X		
Oregon	Jackson	2,857,780	X		
Delaware	Sussex	2,840,020			X
California	Fresno	2,836,100	X		
New Hampshire	Coos	2,773,660			X
California	San Bernandino	2,746,110	X		
Massachusetts	Barnstable	2,706,040		X	
New Hampshire	Grafton	2,700,870			X
Mississippi	Sunflower	2,693,040			X
California	San Luis Obispo	2,690,570		X	
North Carolina	Randolph	2,658,130	X		
New Hampshire	Belknap	2,620,850			X
Florida	Orange	2,618,260	X		
Florida	Lake	2,584,200		X	
Missouri	Christian	2,563,580	X		
North Carolina	Guilford	2,553,680	X		
New York	Wayne	2,545,630	X		
Maine	Lincoln	2,544,180			X

(continued)

State	County	Dollar value of loans obligated	Classification of county: MSA	Around MSA	Remote rural
California	Tulare	2,464,960	X		
Washington	King	2,454,990	X		
New Mexico	Santa Fe	2,393,840	X		
Arizona	Mohave	2,360,870		X	
Florida	Volusia	2,359,230	X		
Michigan	Genesee	2,356,590	X		
Minnesota	Kandiyohi	2,352,381		X	
New York	Orange	2,322,150	X		
New Hampshire	Cheshire	2,318,050			X
New York	Broome	2,316,630	X		
Minnesota	Wright	2,278,430	X		
Michigan	Kent	2,257,050	X		
Wisconsin	St. Croix	2,252,060	X		
Colorado	Las Animas	2,243,990		X	
Vermont	Chittenden	2,243,500		X	
California	Shasta	2,241,160	X		
North Carolina	Dare	2,240,980			X
West Virginia	Putnam	2,230,900	X		
Wisconsin	Waupaca	2,224,710		X	
New Mexico	Dona Ana	2,207,070	X		
West Virginia	Berkeley	2,189,350		X	
Maryland	Cecil	2,188,820	X		
Connecticut	Tolland	2,179,840		X	
North Carolina	Catawba	2,158,240	X		
North Carolina	New Hanover	2,114,200	X		
California	Kings	2,100,190		X	
South Carolina	Sumter	2,073,990			X
West Virginia	Harrison	2,062,850			X
Texas	Hidalgo	2,050,290	X		
Virginia	Shenanadoah	2,047,820			X
Colorado	Weld	2,043,470	X		
Total		**$331,593,939**	**58**	**26**	**16**

Table IV.3: Counties That Did Not Obligate Any Program Funds in Fiscal Year 1991 and Their Classification

		Classification of county			
State	County	MSA	Around MSA	Remote rural	Percent of county considered rural
Alabama	Russell	X			36.6
Arkansas	Columbia			X	55.3
Arkansas	Lafayette		X		72.0
Arkansas	Newton			X	100.0
California	Amador		X		100.0
California	Marin	X			6.7
California	Mono		X		54.2
California	Ventura	X			5.4
Colorado	Costilla			X	100.0
Colorado	Eagle			X	100.0
Colorado	Elbert		X		100.0
Colorado	Kiowa			X	100.0
Colorado	Kit Carson			X	59.1
Colorado	Lincoln		X		100.0
Colorado	Logan		X		42.5
Colorado	Moffat			X	38.1
Colorado	San Miguel			X	100.0
Colorado	Washington		X		100.0
Connecticut	Fairfield	X			12.6
Florida	Broward	X			1.0
Florida	Charlotte		X		38.3
Florida	Dixie			X	100.0
Florida	Gilchrist		X		100.0
Florida	Lafayette			X	100.0
Florida	Martin	X			47.4
Florida	St. Lucie	X			15.3
Florida	Wakulla		X		100.0
Georgia	Atkinson			X	100.0
Georgia	Baker		X		100.0
Georgia	Banks		X		100.0
Georgia	Bibb	X			14.9
Georgia	Candler			X	53.0
Georgia	Cherokee	X			70.7
Georgia	Clay			X	100.0

(continued)

State	County	Classification of county: MSA	Classification of county: Around MSA	Classification of county: Remote rural	Percent of county considered rural
Georgia	Fulton	X			4.2
Georgia	Glynn			X	44.8
Georgia	Gwinnett	X			30.1
Georgia	Heard		X		100.0
Georgia	Jasper		X		100.0
Georgia	Jefferson		X		84.7
Georgia	Jones	X			82.3
Georgia	Lumpkin			X	73.6
Georgia	McIntosh			X	100.0
Georgia	Pickens		X		100.0
Georgia	Pike		X		100.0
Georgia	Pulaski		X		51.2
Georgia	Rockdale	X			69.4
Georgia	Schley			X	100.0
Georgia	Talbot		X		97.4
Georgia	Telfair			X	70.2
Georgia	Towns			X	100.0
Georgia	Turner			X	49.9
Georgia	Ware			X	38.3
Georgia	Wheeler			X	100.0
Georgia	Wilcox			X	100.0
Georgia	Wilkinson		X		73.3
Idaho	Adams			X	100.0
Idaho	Custer			X	100.0
Idaho	Lewis			X	100.0
Idaho	Lincoln			X	100.0
Idaho	Shoshone			X	82.2
Illinois	Calhoun		X		100.0
Illinois	Hamilton			X	67.7
Illinois	Marshall		X		81.1
Illinois	Pulaski			X	100.0
Illinois	Washington		X		79.4
Indiana	Benton		X		100.0
Indiana	Brown		X		100.0
Indiana	Hancock	X			63.2

(continued)

		Classification of county			
State	County	MSA	Around MSA	Remote rural	Percent of county considered rural
Indiana	Parke		X		83.0
Indiana	Pike		X		77.8
Indiana	Pulaski			X	100.0
Iowa	Osceola			X	63.6
Iowa	Ringgold			X	100.0
Iowa	Tama		X		84.8
Kansas	Barber			X	100.0
Kansas	Barton			X	27.3
Kansas	Bourbon			X	44.3
Kansas	Butler	X			54.7
Kansas	Chautauqua			X	100.0
Kansas	Cheyenne			X	100.0
Kansas	Comanche			X	100.0
Kansas	Decatur			X	100.0
Kansas	Doniphan		X		86.2
Kansas	Elk		X		100.0
Kansas	Graham			X	100.0
Kansas	Gray			X	100.0
Kansas	Greeley			X	100.0
Kansas	Greenwood		X		60.9
Kansas	Hamilton			X	100.0
Kansas	Haskell			X	100.0
Kansas	Kearny			X	100.0
Kansas	Kiowa			X	100.0
Kansas	Lane			X	100.0
Kansas	Lincoln			X	100.0
Kansas	Logan			X	100.0
Kansas	Lyon			X	28.0
Kansas	Meade			X	100.0
Kansas	Mitchell			X	46.2
Kansas	Morris			X	100.0
Kansas	Morton			X	100.0
Kansas	Ness			X	100.0
Kansas	Osborne			X	100.0
Kansas	Phillips			X	56.4

(continued)

State	County	Classification of county: MSA	Around MSA	Remote rural	Percent of county considered rural
Kansas	Republic			X	62.9
Kansas	Rice			X	65.1
Kansas	Russell			X	38.8
Kansas	Sheridan			X	100.0
Kansas	Smith			X	100.0
Kansas	Wallace			X	100.0
Kansas	Woodson			X	100.0
Kentucky	Green			X	100.0
Kentucky	Harlan			X	83.9
Kentucky	Lyon			X	100.0
Kentucky	Martin		X		100.0
Kentucky	Meade		X		72.4
Kentucky	Robertson			X	100.0
Kentucky	Webster		X		70.1
Louisiana	Claiborne			X	54.6
Louisiana	Red River		X		100.0
Maryland	Baltimore	X			7.9
Massachusetts	Dukes			X	100.0
Michigan	Macomb	X			5.2
Michigan	Menominee			X	61.5
Michigan	Wayne	X			1.6
Minnesota	Beltrami			X	64.7
Minnesota	Brown			X	39.5
Minnesota	Cass			X	100.0
Minnesota	Cook			X	100.0
Minnesota	Cottonwood			X	68.6
Minnesota	Fillmore		X		88.1
Minnesota	Freeborn			X	47.1
Minnesota	Hubbard			X	78.9
Minnesota	Jackson			X	72.3
Minnesota	Koochiching		X		52.1
Minnesota	Lac Qui Parle			X	100.0
Minnesota	Lincoln			X	100.0
Minnesota	Mahnomen			X	100.0
Minnesota	Marshall		X		100.0

(continued)

State	County	Classification of county: MSA	Around MSA	Remote rural	Percent of county considered rural
Minnesota	Mower		X		43.0
Minnesota	Murray			X	100.0
Minnesota	Pope		X		78.4
Minnesota	Renville			X	86.3
Minnesota	Rock		X		57.3
Minnesota	Swift			X	71.7
Minnesota	Yellow Medicine			X	80.5
Missouri	Camden			X	100.0
Missouri	Carroll		X		61.3
Missouri	De Kalb		X		91.6
Missouri	Gentry			X	100.0
Missouri	Harrison			X	68.7
Missouri	Hickory			X	100.0
Missouri	Holt			X	100.0
Missouri	Knox			X	100.0
Missouri	McDonald		X		100.0
Missouri	Mercer			X	100.0
Missouri	Monroe			X	77.5
Missouri	Ozark			X	100.0
Missouri	Pike			X	58.5
Missouri	Putnam			X	100.0
Missouri	Reynolds			X	100.0
Missouri	St. Clair			X	100.0
Missouri	St. Louis	X			2.3
Missouri	Schuyler			X	100.0
Missouri	Shannon			X	100.0
Missouri	Shelby			X	100.0
Montana	Daniels			X	100.0
Montana	Fallon			X	100.0
Montana	Jefferson			X	100.0
Montana	McCone			X	100.0
Montana	Park			X	44.8
Montana	Phillips			X	100.0
Montana	Powder River			X	100.0
Montana	Richland			X	53.2

(continued)

State	County	Classification of county: MSA	Classification of county: Around MSA	Classification of county: Remote rural	Percent of county considered rural
Montana	Roosevelt			X	70.6
Montana	Sheridan			X	100.0
Montana	Stillwater		X		100.0
Montana	Sweet Grass			X	100.0
Montana	Toole			X	43.5
Montana	Treasure		X		100.0
Montana	Valley			X	56.5
Nebraska	Adams			X	24.8
Nebraska	Boone			X	100.0
Nebraska	Butler		X		73.1
Nebraska	Cedar			X	100.0
Nebraska	Cheyenne			X	40.2
Nebraska	Cuming			X	69.1
Nebraska	Custer			X	71.3
Nebraska	Dakota	X			37.6
Nebraska	Dawes			X	38.3
Nebraska	Dixon		X		100.0
Nebraska	Dodge		X		33.1
Nebraska	Furnas			X	100.0
Nebraska	Garden			X	100.0
Nebraska	Gosper			X	100.0
Nebraska	Harlan			X	100.0
Nebraska	Hitchcock			X	100.0
Nebraska	Kimball		X		36.1
Nebraska	Knox			X	100.0
Nebraska	Merrick			X	65.5
Nebraska	Morrill			X	100.0
Nebraska	Nance			X	100.0
Nebraska	Nemaha			X	58.4
Nebraska	Nuckolls			X	62.8
Nebraska	Otoe		X		53.1
Nebraska	Polk			X	100.0
Nebraska	Richardson			X	52.5
Nebraska	Rock			X	100.0
Nebraska	Sherman			X	100.0

(continued)

State	County	Classification of county: MSA	Classification of county: Around MSA	Classification of county: Remote rural	Percent of county considered rural
Nebraska	Thurston		X		100.0
Nebraska	Valley			X	52.8
Nebraska	York			X	47.8
New Jersey	Bergen	X			0.3
New Jersey	Somerset	X			24.5
New Mexico	Curry			X	16.7
New Mexico	Debaca			X	100.0
New Mexico	Torrance		X		100.0
New York	Columbia		X		86.6
New York	Hamilton		X		100.0
New York	Rensselaer	X			38.9
North Carolina	Camden		X		100.0
North Carolina	Clay			X	100.0
North Carolina	Graham		X		100.0
North Carolina	Hoke		X		82.2
North Carolina	Montgomery		X		88.0
North Carolina	Warren		X		100.0
North Dakota	Adams			X	100.0
North Dakota	Burke			X	100.0
North Dakota	Cavalier			X	100.0
North Dakota	Divide			X	100.0
North Dakota	Foster			X	42.7
North Dakota	Grant		X		100.0
North Dakota	Griggs			X	100.0
North Dakota	Hettinger			X	100.0
North Dakota	Kidder		X		100.0
North Dakota	Lamoure			X	100.0
North Dakota	Logan			X	100.0
North Dakota	McHenry			X	100.0
North Dakota	McIntosh			X	100.0
North Dakota	Mercer		X		69.1
North Dakota	Nelson		X		100.0
North Dakota	Rolette			X	100.0
North Dakota	Sargent			X	100.0
North Dakota	Steele		X		100.0

(continued)

State	County	Classification of county: MSA	Classification of county: Around MSA	Classification of county: Remote rural	Percent of county considered rural
North Dakota	Ward			X	26.8
North Dakota	Wells			X	63.8
Ohio	Cuyahoga	X			0.3
Ohio	Defiance			X	48.1
Ohio	Harrison		X		77.6
Ohio	Holmes		X		88.7
Ohio	Noble		X		100.0
Ohio	Perry		X		74.4
Ohio	Pike			X	79.8
Oklahoma	Atoka			X	73.3
Oklahoma	Blaine		X		69.2
Oklahoma	Cimarron			X	100.0
Oklahoma	Cotton		X		62.1
Oklahoma	Craig		X		55.1
Oklahoma	Dewey			X	100.0
Oklahoma	Greer			X	45.5
Oklahoma	Hughes			X	61.9
Oklahoma	McClain	X			62.0
Oklahoma	Mayes		X		73.7
Oklahoma	Nowata		X		62.8
Oklahoma	Okmulgee		X		42.1
Oklahoma	Stephens		X		36.6
Oklahoma	Washington		X		20.8
Oklahoma	Washita			X	76.1
Oregon	Grant			X	100.0
Oregon	Morrow			X	100.0
Oregon	Wheeler			X	100.0
Pennsylvania	Forest			X	100.0
Pennsylvania	Sullivan		X		100.0
South Dakota	Aurora			X	100.0
South Dakota	Clark			X	100.0
South Dakota	Deuel			X	100.0
South Dakota	Faulk			X	100.0
South Dakota	Haakon		X		100.0
South Dakota	Hanson			X	100.0

(continued)

State	County	Classification of county: MSA	Around MSA	Remote rural	Percent of county considered rural
South Dakota	Jerauld			X	100.0
South Dakota	Kingsbury			X	100.0
South Dakota	McPherson			X	100.0
South Dakota	Miner			X	100.0
South Dakota	Potter			X	100.0
South Dakota	Sanborn			X	100.0
South Dakota	Sully			X	100.0
Tennessee	Campbell		X		68.5
Tennessee	Davidson	X			2.0
Tennessee	Moore			X	100.0
Tennessee	Perry			X	100.0
Texas	Armstrong		X		100.0
Texas	Bee		X		44.0
Texas	Blanco		X		100.0
Texas	Burnet		X		62.6
Texas	Carson		X		100.0
Texas	Clay		X		67.1
Texas	Comal	X			38.3
Texas	Concho		X		100.0
Texas	Culberson			X	16.4
Texas	Erath			X	35.3
Texas	Fisher		X		100.0
Texas	Galveston	X			7.4
Texas	Gray			X	18.9
Texas	Gregg	X			18.8
Texas	Hale		X		35.1
Texas	Hardeman			X	38.9
Texas	Hartley		X		42.7
Texas	Hood		X		81.2
Texas	Hutchinson		X		39.8
Texas	Jack		X		46.0
Texas	Jefferson	X			5.7
Texas	Jim Wells		X		31.9
Texas	Karnes			X	43.7
Texas	Knox			X	100.0

(continued)

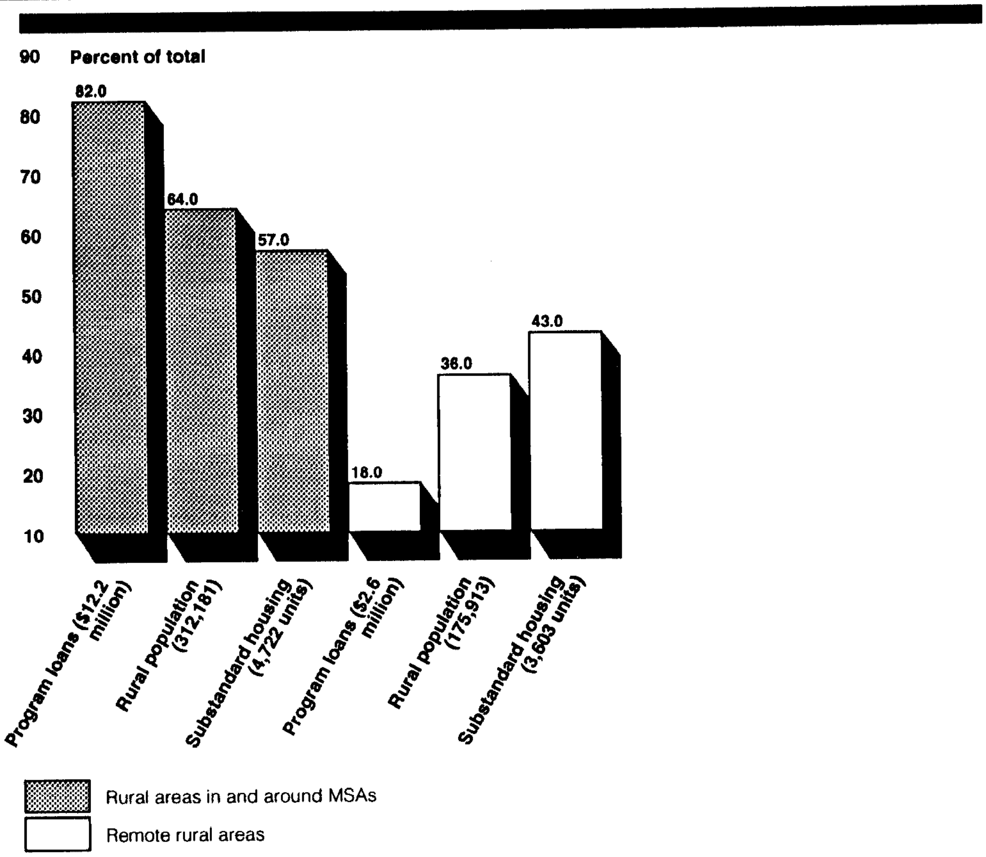
State	County	Classification of county: MSA	Classification of county: Around MSA	Classification of county: Remote rural	Percent of county considered rural
Texas	Lamar			X	39.5
Texas	Lavaca		X		64.8
Texas	Llano			X	69.7
Texas	Lubbock	X			13.5
Texas	Mason			X	100.0
Texas	Matagorda		X		40.5
Texas	Maverick		X		31.8
Texas	Medina		X		57.6
Texas	Mills			X	100.0
Texas	Mitchell			X	40.5
Texas	Montgomery	X			77.3
Texas	Newton		X		100.0
Texas	Nolan		X		29.5
Texas	Panola		X		68.9
Texas	Real			X	100.0
Texas	Refugio		X		58.0
Texas	Rusk		X		66.1
Texas	San Jacinto		X		100.0
Texas	San Saba			X	54.1
Texas	Shelby			X	74.8
Texas	Taylor	X			10.5
Texas	Travis	X			11.8
Texas	Trinity			X	72.3
Texas	Walker		X		42.7
Texas	Winkler		X		19.4
Utah	Daggett			X	100.0
Utah	Grand			X	35.3
Utah	Morgan		X		100.0
Utah	Summit		X		72.3
Virginia	Craig		X		100.0
Virginia	Lancaster			X	100.0
Virginia	Northumberland			X	100.0
Virginia	City of Winchester[a]			X	–
Washington	Asotin			X	37.1
Washington	Klickitat		X		78.4

(continued)

State	County	Classification of county: MSA	Around MSA	Remote rural	Percent of county considered rural
Washington	Lincoln		X		100.0
Washington	Walla Walla		X		26.9
West Virginia	Pendleton			X	100.0
West Virginia	Pocahontas			X	100.0
Wisconsin	Florence			X	100.0
Wisconsin	Marquette			X	100.0
Wisconsin	Ozaukee	X			25.9
Wyoming	Johnson		X		43.3
Wyoming	Laramie	X			14.9
Wyoming	Natrona	X			17.5
Total		**37**	**113**	**209**	

[a]The City of Winchester is located in Frederick County, Virginia, which is a remote rural county.

Figure IV.2: Comparison of Program Funds Used in Four Counties in and Around MSAs and in All 10 Remote Rural Counties in Relation to Housing Needs in Washington, Fiscal Year 1991



Note: Data includes 4 counties in MSAs with rural areas and all 10 remote rural counties in the state. These 14 counties represent 57 percent of dollars obligated, 34 percent of the rural population, and 30 percent of the substandard housing in the entire state.

Income Limits Affect Program Participation

The extent to which income limits differ between remote rural areas and rural locations in or around MSAs and the effect these limits have on program eligibility is demonstrated in the three states where we conducted a detailed review—Iowa, Missouri, and Minnesota. For example, a family of two applying for a low-income home loan under this program in the remote rural areas of Iowa can make up to $20,350 to be determined income eligible, while a family of two applying in Polk and Warren counties, which are part of the Des Moines MSA, can make up to $26,050 (a $5,700 difference). In Missouri, a family of two applying for a loan around Kansas City can make $26,300, while a similar family in a remote rural area of the state can only make $16,750 (a $9,550 difference). Furthermore, a family with two-wage earners working at or slightly above the minimum wage in many remote rural areas does not qualify for the program because their combined wages exceed the lower allowable income limits.

Table V.1 further highlights the difference in income limits between these areas in the three states. These differences ranged from a high of $10,800 for a low-income family to a low of $3,600 for very low-income family.

Table V.1: Comparison of Income Limits Between Rural Areas in or Around MSAs and Remote Rural Locations for Iowa, Minnesota, and Missouri, Fiscal Year 1991

	Income Limits For a Family of Two		
State	Metropolitan statistical areas[a]	Remote rural areas[b]	Difference
Iowa	Des Moines		
Low income	$26,050	$20,350	$5,700
Very low income	16,300	12,700	3,600
Minnesota	Twin Cities		
Low income	30,400	19,600	10,800
Very low income	19,200	12,250	6,950
Missouri	Kansas City		
Low income	26,300	16,750	9,550
Very low income	16,450	10,500	5,950

[a]These income limits are based on the actual county median income because it is higher than the state's nonmetropolitan median income.

[b]These remote rural area income limits are based on the state's nonmetropolitan median income because it is higher than the county's actual median income limits.

These income limits represent the maximum income that a family can make and still qualify for participation in the program; however, income limits can vary from county-to-county. In Iowa, 57 of the 99 counties' income limits are based on the state's nonmetropolitan income. These 57 counties contain 48.2 percent of the state's rural population and contain over 52.8 percent of the state's substandard rural housing. The remaining 42 counties use their respective county median income—which is higher than the state's nonmetropolitan income—to establish their income limits. A two-income family in a remote rural area in Iowa with each person earning $4.90 per hour for a yearly income of $20,384 would not qualify in any of the 57 counties using the nonmetropolitan income limits because they would be $34 over the low-income limit of $20,350. Similar situations occurred in Missouri and Minnesota. However, if the Iowa family was living in one of the remaining 42 counties located in or around an MSA where the income limits are based on the higher county median income instead of the nonmetropolitan median income—such as the Des Moines area with a limit of $26,050—the family would be able to qualify for a loan.

In addition, income limits can also vary within the same city. For example, in one Missouri city, Sullivan, the income limits differed by as much as $10,400 because the city is split between two counties. FmHA's Missouri State Housing Chief said that this inequitable situation has had an impact on awarding loans within the city. On the side of town where the income limit was higher ($31,350 for a low-income family of four), the number of qualified applicants was greater and FmHA made more loans. During fiscal year 1991, FmHA made over 55 loans totaling about $2 million for the county containing that part of the city with the higher income limit. Conversely, they made only two loans totaling $70,000 in the other county containing the remaining part of the city with a lower income limit of $20,950—which is $10,400 lower.

Subjective Application of Housing Standards Limits Available Supply of Eligible Housing in Remote Rural Areas

Subjective application of housing standards by FmHA has kept existing houses out of the program in some areas—especially remote rural areas. These standards, set by FmHA's National Office in general terms, require that eligible houses

- be structurally sound, functionally adequate, and in good repair;
- be modest in size, design, and cost, with no more than 1,300 square feet of living area for households of two or more persons;
- meet FmHA thermal standards, such as the proper amount and type of insulation; and
- be inspected and certified for adequacy of electrical, plumbing, heat, water, sewer, and termite infestation.

Implementation and interpretation of these standards is left up to each state. According to an Iowa FmHA county office supervisor, one house would have been rejected if FmHA had been asked to qualify it because it contained a fireplace and therefore, in the opinion of this supervisor, did not meet FmHA's modest in design and thermal standards (see fig. VI.1). However, according to realtors we talked with, heat loss concerns could be easily remedied with a fireplace insert or a glass door.

Figure VI.1: House Considered Ineligible Solely Because It Had a Fireplace

In another county where FmHA had not made a program loan in 2 years, we found a house that appeared to be well-maintained but was still rejected because the prior county supervisor believed the house had too many windows—one of which was oversized—and did not meet the thermal standards (see fig. VI.2). We believe that this problem could have been corrected at minimum expense by installing thermal shades or blinds.

Figure VI.2: House Considered Ineligible Because It Had Too Many Windows

In the same county, another house had been rejected by the prior county supervisor for having a slope and a potential water drainage problem in the backyard (see fig. VI.3). According to local realtors, the potential problem could have been corrected with minimal landscaping.

Figure VI.3: House Considered Ineligible Solely Because of the Backyard's Grade

On the other hand, in Minnesota and Missouri, FmHA approved financing for houses that had both garages and basements—amenities that would disqualify these houses in Iowa (see fig. VI.4). According to a Missouri FmHA county supervisor's interpretation of FmHA standards, this same type of house could be built today under the program in Missouri with both amenities.

Figure VI.4: House With Both a Garage and Basement That an FmHA County Supervisor Determined to Be Eligible in Missouri

FmHA Plans to Implement a Price Cap

To increase the inventory of available housing in remote rural areas, FmHA officials are in the process of revising the agency's acceptance criteria for qualifying houses into the program. FmHA plans to rely on price caps that emphasizes a price ceiling in determining a house's eligibility. This measure would be similar to one used in FmHA's housing loan guarantee program, and will minimize the consideration of specific amenities and eliminate the subjective interpretation of the guidelines FmHA now operates under to determine if a house is modest in design.

FmHA's national housing program director believes that the price cap will increase the opportunities for purchasing houses, particularly existing houses in remote rural areas. In addition, he believes it will also reduce the opportunities for subjective interpretation of the eligibility standards and eliminate other standards, such as square footage and room configuration limitations. FmHA plans to implement this price cap policy in 1994 after establishing and issuing the necessary regulations and instructions.

Reallocation of FmHA'S Rural Single-Family Housing Program Funds for Fiscal Years 1987 Through 1991

Of the $6.4 billion appropriated by Congress during fiscal years 1987 through 1991 for FmHA's rural single-family housing program, the agency reallocated over $1.1 billion. The reallocation of funds was based on the demand for program loans. (See table VII.1 for the reallocation of funds.)

Table VII.1: Reallocation of FmHA Program Funds During Fiscal Years 1987 Through 1991

In thousands of dollars

Amount reallocated from unobligated state funds	$ 454,766
Amount reallocated from FmHA's reserves to states	651,949
Total program funds reallocated	**$1,106,715[a]**

[a]A total of 31 states shared in the reallocation of $1.1 billion. Of this amount, $454 million came from 19 states that lost part of their original allocation and the remaining amount, $651 million, came from FmHA's reserve fund.

Of the 31 states that shared in the reallocation of funds during the 5-year period, Missouri received the lowest amount, $755,000, or less than one percent, of its original allocation. Mississippi received the largest amount of reallocated funds ($131 million) or about 97 percent over its original allocation. Rhode Island received the highest percentage increase over its original allocation—242.5 percent, or $21.8 million. (See table VII.2.)

These reallocated funds came from FmHA's reserve ($651 million) and from the 19 states ($454 million) that did not spend their original allocation. (See table VII.3.) Funds forfeited by these states ranged from a low of $2.6 million for Kentucky to a high of $153.2 million for Texas—a loss of 1.5 percent and 50.4 percent, respectively, of their original allocation.

Table VII.2: States That Received Additional Program Funds During the Reallocation Process for Fiscal Years 1987 Through 1991

State	Reallocated amount received (000)	Percent of increase over original allocation
Mississippi	$131,117	97.4
Massachusetts	121,737	170.2
Maine	120,034	205.1
California	67,917	32.1
South Carolina	63,140	45.8
New Hampshire	60,980	170.2
Tennessee	60,375	35.3
New Jersey	54,358	95.6
Florida	53,038	36.1
Vermont	48,245	172.0
Connecticut	42,507	99.1
Pennsylvania	40,093	14.3
Hawaii	35,099	181.7
Maryland	33,224	50.2
Virginia	32,598	18.9
Rhode Island	21,822	242.5
Arizona	16,381	28.2
Arkansas	19,292	16.7
New Mexico	15,947	33.2
Utah	11,994	53.5
Oregon	11,078	13.7
Iowa	10,036	9.7
Michigan	8,492	4.2
Nevada	7,383	62.5
Washington	6,439	6.8
Delaware	3,741	26.5
Wyoming	2,795	14.0
Wisconsin	2,119	1.5
South Dakota	1,995	5.8
West Virginia	1,984	1.8
Missouri	755	0.5
Total	**$1,106,715**	

Table VII.3: States That Lost Program Funds During the Reallocation Process for Fiscal Years 1987 Through 1991

State	Reallocated amount lost (000)	Percent of funds decreased over original allocation
Texas	$ 153,221	50.4
Illinois	40,445	23.4
Indiana	38,725	24.2
Kansas	30,054	39.0
Georgia	27,608	13.8
Oklahoma	26,253	26.6
Louisiana	21,332	15.8
North Carolina	20,603	7.6
Alabama	12,907	8.3
Nebraska	11,614	23.6
Montana	10,039	30.1
Alaska	9,872	46.3
Minnesota	9,701	8.2
Ohio	9,615	4.1
North Dakota	9,212	33.0
Colorado	9,133	18.0
Idaho	7,004	17.8
New York	4,790	2.4
Kentucky	2,638	1.5
Total	**$ 454,766**	

FmHA'S Fiscal Year 1991 List of 100 Counties Identified as Underserved and to Be Targeted for Assistance[a]

			Classification of county		
State	County	Dollars obligated	MSA	Around MSA	Remote rural
Alabama	Crenshaw	$239,040		X	
Alabama	Dallas	76,100		X	
Alabama	Russell	0	X		
Alabama	Washington	46,650		X	
Alaska	Palmer	[b]	X		
Arizona	Apache	62,940			X
Arizona	Coconino	49,470			X
Arkansas	Lafayette	0		X	
Arkansas	Lee	80,290		X	
Arkansas	Lincoln	4,960		X	
Arkansas	Phillips	47,880			X
Arkansas	Woodruff	105,270			X
Georgia	Appling	80,900			X
Georgia	Baker	0		X	
Georgia	Calhoun	258,000		X	
Georgia	Candler	0			X
Georgia	Charlton	44,500		X	
Georgia	Clay	0			X
Georgia	Echols	[c]			X
Georgia	Johnson	0			X
Georgia	McIntosh	0			X
Georgia	Screven	308,030		X	
Georgia	Taliaferro	0			X
Georgia	Treutlen	48,000			X
Georgia	Washington	261,580			X
Georgia	Webster	[c]		X	
Georgia	Wilcox	0			X
Idaho	Madison	21,500			X
Kentucky	Bell	86,440			X
Kentucky	Casey	37,000			X
Kentucky	Green	0			X
Kentucky	Knott	40,910			X
Kentucky	Knox	84,480			X
Kentucky	Lawrence	10,200		X	

(continued)

			Classification of county		
State	County	Dollars obligated	MSA	Around MSA	Remote rural
Kentucky	Leslie	77,000			X
Kentucky	Letcher	131,370			X
Kentucky	Perry	77,040			X
Kentucky	Robertson	0			X
Kentucky	Whitley	17,290			X
Louisiana	Claiborne	0			X
Louisiana	Evangeline	326,120		X	
Louisiana	Franklin	188,520			X
Louisiana	Madison	80,830			X
Louisiana	Morehouse	184,570		X	
Louisiana	St. Landry	281,360		X	
Louisiana	West Feliciana	182,900		X	
Mississippi	Amite	339,650			X
Mississippi	Issaquena	36,250			X
Mississippi	Oktibbeha	318,750			X
Montana	Petroleum	[c]			X
New Mexico	McKinley	137,740			X
New Mexico	Mora	0		X	
New Mexico	San Juan	261,400			X
North Carolina	Greene	430,360			X
North Carolina	Robeson	104,650		X	
North Carolina	Tyrrell	66,810			X
North Carolina	Warren	0		X	
North Dakota	Sioux	42,500		X	
South Dakota	Buffalo	122,880			X
South Dakota	Corson	[c]			X
South Dakota	Dewey	[c]			X
South Dakota	Faulk	0			X
South Dakota	Jackson	42,600		X	
South Dakota	Mellette	37,000			X
South Dakota	Shannon	[c]		X	
South Dakota	Todd	39,500			X
South Dakota	Ziebach	[c]		X	
Tennessee	Campbell	0		X	
Tennessee	Cocke	182,350		X	

(continued)

			Classification of county		
State	**County**	**Dollars obligated**	**MSA**	**Around MSA**	**Remote rural**
Tennessee	Grainger	248,500	X		
Texas	Crosby	[c]		X	
Texas	Dimmit	39,000		X	
Texas	Edwards	38,500			X
Texas	Grimes	6,670		X	
Texas	Hudspeth	[c]		X	
Texas	Kenedy	[c]		X	
Texas	La Salle	[c]		X	
Texas	Maverick	0		X	
Texas	Presidio	[c]			X
Texas	Real	0			X
Texas	Reeves	[c]			X
Texas	San Jacinto	0		X	
Texas	Webb	[c]	X		
Texas	Zavala	45,900			X
Utah	San Juan	123,900			X
Virginia	Mecklenburg	890,820			X
Virginia	Northampton	229,740			X
West Virginia	Summers	159,300			X
West Virginia	Webster	148,010			X
Total		**$7,633,920**	**4**	**33**	**52**

[a]Because our review did not include the U.S. Virgin Islands, Puerto Rico, and the Pacific trust territories, we excluded 11 counties included on FmHA's list that were from Puerto Rico.

[b]Unable to determine funds obligated in Palmer because dollars are obligated in Alaska by geographic areas within the state and not by towns or counties.

[c]According to FmHA's single-family housing director, this county did not receive any obligated funds during fiscal years 1987 through 1991 and would not appear on the data base provided by FmHA National Finance Office in St. Louis, Missouri.

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