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Report to the Chairman, Information, Justice, Transportation, and Agriculture Subcommittee, Committee on Government Operations, House of Representatives

June 1994

RENTAL HOUSING

Distribution and Use of FmHA's Rural Rental Housing Program Funds

GAO

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Resources, Community, and
Economic Development Division

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June 1, 1994

The Honorable Gary A. Condit
Chairman, Information, Justice,
Transportation, and Agriculture Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

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. This act, as amended, established the Rural Rental Housing Program—also known as the section 515 program (42 U.S.C. 1485), within the U.S. Department of Agriculture's (USDA) Farmers Home Administration (FmHA)—to provide suitable and affordable housing for lower-income households. With annual appropriations of about $574 million for fiscal years 1992 and 1993, the program provides low-interest loans to borrowers to construct or rehabilitate affordable rental housing projects in rural areas.

This report responds to your request that we provide you with information on the Rural Rental Housing Program. As agreed with your office, the report discusses (1) FmHA's procedures for allocating funds to states and selecting projects within states and whether these procedures have resulted in project concentration in a relatively small number of states; (2) the extent to which FmHA's allocation and project award procedures reflect actual housing needs; (3) the extent to which states have used program funds, including the amount of unused funds that have been reallocated to other states; and (4) the size and status of the rural rental housing portfolio as of September 30, 1992 (the latest data available at the time of our review).

Results in Brief

FmHA's national office allocates most of the Rural Rental Housing Program funds by state on an annual basis, using a formula that reflects the program's purpose of meeting the needs of rural low-income individuals living in inadequate housing. The formula estimates each state's need for rural rental housing on the basis of its percentage of the nation's rural (1) population, (2) occupied substandard housing units, and (3) families with incomes below the poverty level. FmHA field offices rank projects proposed by potential developers using a point system based on criteria similar to those used in allocating funds to states. The allocation process has resulted in a little more than one-half of all projects funded during fiscal years 1987 through 1992 being concentrated in 15 states. However, these states also accounted for a little more than one-half of all housing needs, as estimated by FmHA's allocation criteria.

While FmHA's procedures for allocating funds to states and for awarding projects are based on estimates of rural housing needs, these estimates may differ from actual needs for rental housing funds, in part because they are based on Bureau of the Census data that are only updated every 10 years. Furthermore, because project developers, rather than FmHA, determine the locations for proposed projects, there is no guarantee that the neediest areas within states will receive program assistance. Recognizing that the neediest areas may not always receive housing assistance, in 1990 the Congress directed that FmHA implement a program to direct a portion of program funds to underserved rural areas. However, these areas will still not be served unless developers propose projects in them.

Because of decreased program appropriations and numerous project proposals from private developers, most states have in recent years used their annual allocations. During fiscal year 1992, for example, 39 states used all of their funds. If a state office has unused funds during the last quarter of the fiscal year, they are returned to FmHA's national office and pooled with other unused funds for reallocation to states with outstanding loan demands. The high usage of funds by most states has resulted in limited reallocation of funds to other states. For example, in fiscal year 1992, only 2 percent of the nearly $488 million initially allocated to states was returned to the national office for reallocation.

Between the program inception in 1962 and September 30, 1992, FmHA provided 24,653 loans. Of these loans, 20,616, or 84 percent, were still outstanding as of September 30, 1992. The delinquency rate for the outstanding portfolio was 3 percent as of September 30, 1992. According to FmHA officials, most of the loans that are no longer outstanding have been paid in full, although a small number are defaulted loans that have been written off or paid off through FmHA's acquisition and sale of the project property.

Background

The section 515 program, authorized under the Housing Act of 1949, as amended, was established in 1962 to provide rental housing for the elderly in rural areas and expanded in 1966 to serve low- and moderate-income individuals. The purpose of the program is to give lower-income households access to rental housing that they could not otherwise afford. The program offers loans to borrowers who are willing to purchase or construct rental housing but who are unable to obtain credit at terms and conditions that would make the housing affordable to lower-income households. Borrowers are primarily private for-profit corporations or partnerships; however, other organizations such as nonprofit corporations and local government agencies are also eligible for program loans.

Section 515 loans generally have subsidized interest rates of 1 percent and maturities of 50 years or less. As a result, loan payments are low enough to permit borrowers to charge rents affordable to lower-income households, yet still receive sufficient income to cover operating expenses and loan payments. In cases in which the interest rate subsidy does not reduce rent levels enough, tenants may receive rental assistance payments through FmHA's section 521 Rural Rental Assistance Program or the Department of Housing and Urban Development's (HUD) Section 8 Leased-Housing Assistance Program.

FmHA administers the section 515 program through its 46 state offices and 252 district offices. At the beginning of each fiscal year, the national office allocates a portion of the annual program appropriation to each of the 50 states and 3 territories (Puerto Rico, the Virgin Islands, and the Western Pacific Area).[1] A limited portion of each year's total appropriation is held in reserve to provide flexibility in meeting states' funding needs throughout the year. Potential borrowers request loans by submitting a project proposal to the district office that serves the area in which the proposed project site is located. When proposals are approved, the FmHA state office obligates a portion, equal to the loan amount, of its available allocation.

Allocation and Project Ranking Procedures Reflect Program Purpose

The formula that FmHA uses to distribute section 515 funds is based on the program's purpose of providing suitable and affordable housing to rural low-income individuals living in inadequate housing. The criteria used in the formula estimate each state's need for rural rental housing on the basis of the state's percentage of the nation's rural (1) population, (2) occupied substandard housing units, and (3) families with incomes below the poverty level. FmHA believes that these criteria have equal importance in

[1]The Western Pacific Area includes Guam, Saipan, the Marshall Islands, American Samoa, the Federated States of Micronesia, and the Republic of Palau.

determining housing needs and has assigned equal weight to each criterion. These criteria generate an allocation factor, expressed as a percentage, for each state. FmHA then multiplies these factors by the available funds to determine the amount of each state's annual allocation. The source for each criterion is the U.S. Census Bureau, which conducts a census every 10 years. FmHA believes that the Census data are the most current and reliable information for each criterion. The data for each state's formula factor remain unchanged until new Census data become available. The criteria that make up the current formula have been in effect since 1983.

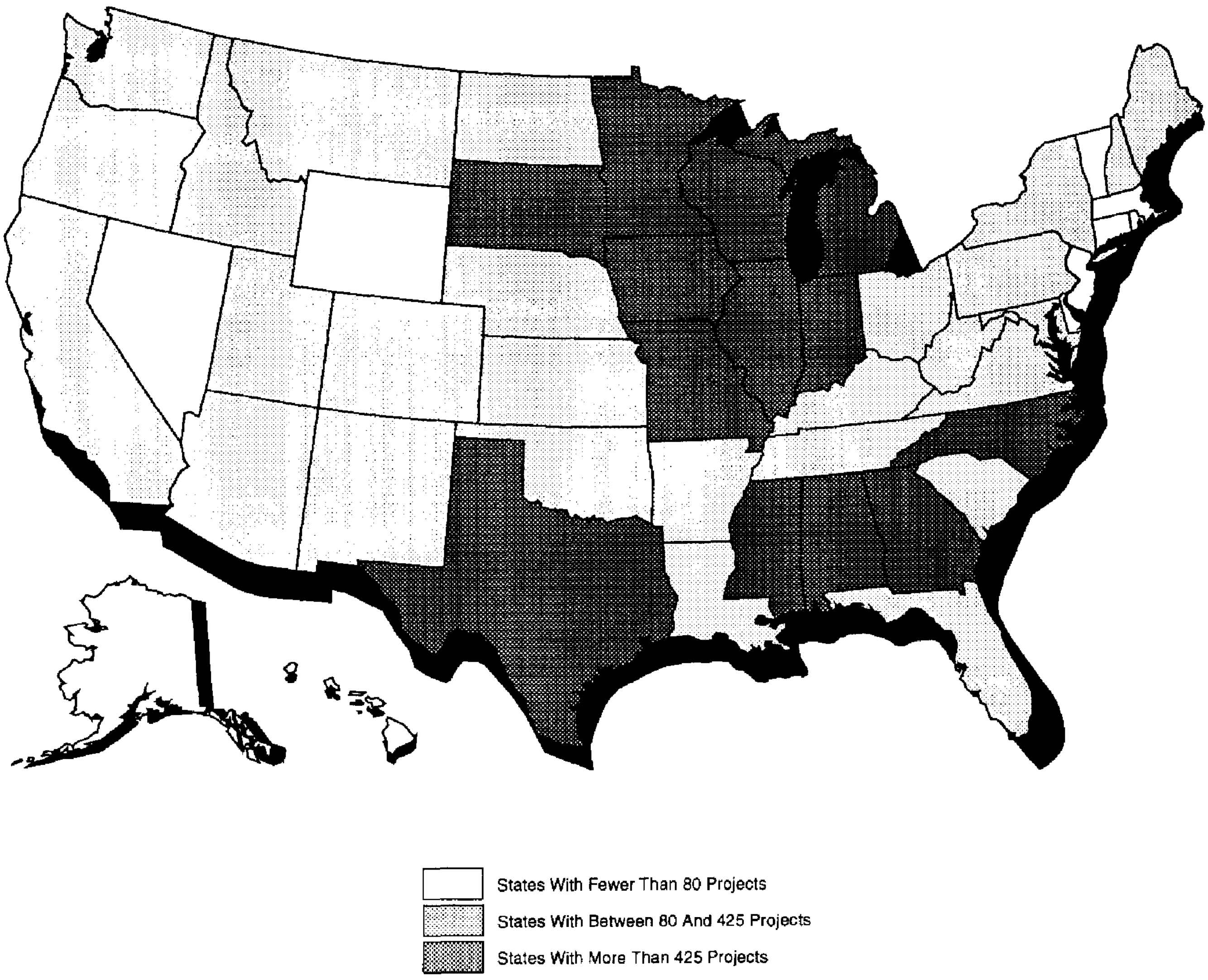
About 15 percent of each year's total section 515 appropriation is not distributed on the basis of the allocation formula. FmHA's national office reserves these funds for specified or unexpected needs during the year. Funds for specified needs, such as rural housing targeting set-aside loans, make up the majority of the reserve funds. A smaller portion of the funds, called the general reserve, is used for unexpected needs, such as emergency situations.

The process that FmHA uses to rank borrowers' loan requests to construct projects is based on a point system that contains criteria similar to those used in allocating funds to states. The system estimates the extent to which proposed projects will meet the greatest housing needs by measuring criteria that include substandard housing and income levels in the proposed project's location, as well as the project's distance from an urban area. Under the system, projects are ranked and approved in order of the points that they receive under the selection criteria. Approved projects are then funded when money becomes available. (See app. II for additional information on the allocation and project selection processes.)

FmHA's allocation and project selection processes have resulted in the concentration of most section 515 housing among a relatively small number of states. Slightly more than one-half of the projects with outstanding loans are located in 13 states. These states contain 52 percent, or 8,514, of the 16,434 projects with outstanding loans[2] and 43 percent, or 195,975, of 450,806 project units. In contrast, the 13 states with the fewest projects have only 3 percent of all projects and 5 percent of all project units. Figure 1 provides a breakdown of the number of projects in each state, as of September 30, 1992. (See app. III for additional information.)

[2]Section 515 borrowers can receive multiple loans for a single project. As of September 30, 1992, the section 515 portfolio contained 20,616 outstanding loans, representing 16,434 projects.

Figure 1: Distribution of Projects by State, as of September 30, 1992



Source: GAO's analysis of FmHA's data.

While FmHA's allocation process for funds has resulted in projects' being concentrated among a relatively small number of states, this concentration among states generally reflects rural housing needs as estimated by the allocation formula. For example, during fiscal years 1987 through 1992, 15 states that had 56 percent of all project approvals and 56 percent of all units also accounted for 51 percent of states' total needs as measured by FmHA's formula.[3] However, for several reasons, individual states' shares of the total formula allocation do not necessarily match their shares of projects and units. (See app. IV.)

Funds Have Generally Been Allocated on the Basis of Estimated Needs, but Funding Processes Do Not Guarantee That the Neediest Areas Will Always Be Served

Both FmHA's process to allocate funds to states and its process to select projects for funding are based on estimates of rural housing needs. However, the needs estimated by these processes may differ from actual housing needs. Furthermore, needy areas may not always receive funding because developers may not choose to propose projects in them.

Estimated Needs May Differ From Actual Needs

While housing distribution has generally been consistent with housing needs as determined by FmHA's formula, FmHA acknowledges that needs estimated by the allocation formula and point system criteria may differ from actual needs for rural rental housing. As a result, the areas with the greatest actual needs may not always receive a commensurate amount of program assistance. One reason for the difference between estimated and actual needs is that both the allocation formula and point system estimate need at one point in time and, therefore, may not reflect current needs.

The data used for the criteria generally come from the Census. Because the data are not updated between Census years, FmHA's allocation formula does not capture subsequent fluctuations in state and local economic and demographic conditions. For example, economic downturns in Pennsylvania's steel industry subsequent to the 1980 Census caused rural populations to shrink, thereby reducing the actual need for section 515 housing in that state. FmHA used data from the 1980 Census for fiscal years 1983 through 1992. Because of the economic downturns, the needs

[3] As discussed in app. I, this comparison is limited to fiscal years 1987 through 1992 because of the availability of data on project approvals and consistent estimates of need for this time period.

estimated by Pennsylvania's formula factor, based on 1980 Census data, were greater than the state's actual needs between 1983 and 1992. Consequently, Pennsylvania only used about 82 percent of its total allocation determined by the formula for fiscal years 1983 through 1992. On the other hand, California used about 156 percent of its total allocation determined by the formula for fiscal years 1983 through 1992. According to FmHA officials in California, the state's actual needs for that period became greater than its estimated needs because it experienced steady population growth, thereby increasing demand for section 515 projects. For fiscal year 1994, FmHA used data from the 1990 Census. Use of these data caused Pennsylvania's formula factor to decrease and California's to increase.

During our review, FmHA initiated a study comparing 1990 Census data with 1980 Census data to assess fluctuations in a state's economic and demographic conditions between Census years. In addition to evaluating changes in a state's allocation, the results of the study, according to one FmHA official, will provide FmHA with some indication of the impact that the section 515 program has had over the last decade in meeting housing needs in rural areas. However, the study has been delayed because of other priorities, and its completion date is uncertain.

Differences between estimated and actual needs may also occur because FmHA has generally used data from the state and county levels to estimate needs under the point system it uses to rank projects. For example, estimating needs at the state and county levels can obscure smaller areas that have greater needs than those of the state or county as a whole. As a result, projects proposed in such areas may receive lower rankings under the point system than the areas' actual needs would dictate. After the start of our review, FmHA began in fiscal year 1994 to increase the use of data from the community level in order to identify and assist geographical pockets of need within states and counties.

Differences between estimated and actual needs may result not only from data limitations but also from the criteria FmHA uses to measure needs. According to FmHA officials, the criteria used to allocate funds and select projects may not account for all of the factors that can contribute to an area's need for section 515 funds. To illustrate, the three criteria used to allocate program funds to states do not consider typical project development costs in a state. However, because these costs vary among states, the needs estimated by the allocation formula may not encompass the level of section 515 funds that a state actually needs to meet its demand for rural rental housing. Although the current formula criteria do not reflect cost, FmHA documents show that, during the late 1970s, cost was included as a factor in the allocation formula. However, FmHA officials currently responsible for the program could not recall inclusion of a cost factor nor speculate on the reason it was discontinued. FmHA documents also show that, in 1990, the agency addressed the possibility of considering cost in calculating state allocations of funds. However, at that time, FmHA believed that revisions to the allocation criteria would be more efficient if made in conjunction with the adjustment of state formula factors, which would occur when FmHA received the 1990 Census data. FmHA has since received the Census data and revised the state formula factors accordingly. FmHA officials told us that they are still discussing the possibility of including a cost factor in the allocation formula but that they have not yet reached a decision on whether or not this factor should be included.

Developers May Not Propose Projects for All Needy Areas

While FmHA's allocation and project selection processes provide an incentive for developers to build in the neediest areas, the neediest areas may not always receive assistance because borrowers may not submit applications for these locations. Private developers are unlikely to build in areas unless it is economically feasible for them to do so. According to FmHA officials, various characteristics may influence developers' opinions as to the attractiveness and feasibility of project development in a state or locality and, thus, their decisions to submit project proposals. For example, although certain areas of the southwestern United States have extremely high poverty and substandard housing rates, section 515 projects are not feasible because the communities have no infrastructure such as water or sewer facilities. Furthermore, needy counties in states such as South Dakota may not always receive projects because of technical difficulties with land titles and loan security. Specifically, developers in South Dakota have been unwilling to build in some counties that are primarily Native American reservations because of the difficulties in acquiring these project sites. Moreover, some needy counties can be less attractive to developers because their populations are scattered throughout the county, rather than clustered in established communities that can readily support centrally located projects.

Recognizing that the most needy areas did not always receive an equitable share of program funds, the Congress directed FmHA to implement a targeting program to direct funds to underserved rural areas beginning in 1991. The Rural Housing Targeting Set-Aside (RHTSA) Program authorized in 1990 under the Cranston-Gonzalez National Affordable Housing Act

(P.L. 101-625) was established to improve the quality of affordable housing in communities that have extremely high concentrations of poverty and substandard housing and that have historically been underserved by FmHA's rural housing programs. Under RHTSA, FmHA sets aside a portion determined by the Congress of all rural housing program appropriations, including section 515 funds, specifically for loans to provide assistance in targeted counties. This set-aside, which is part of the national office's reserve fund, offers an incentive to borrowers to propose projects in the targeted areas because funds are available specifically for these counties. However, serving these targeted areas through the section 515 program still depends on developers' willingness to propose projects in them.

In fiscal year 1992, 5 percent of the section 515 appropriation was set aside for RHTSA, and 95 percent of these funds were used for targeted counties. (App. V provides additional information on the program.)

States' High Use of Funds Results in Limited Reallocation of Funds

Increased demand for program funds and lower allocation amounts have resulted in states' using an increasing percentage of program funds. For example, 30 of the 53 states and territories participating in the section 515 program used all of the funds allocated to them for fiscal years 1983 to 1992. During the last decade, states have received lower annual allocations because of both a decrease in program appropriations and an increase in the percent of appropriations held in the national office's reserve. For example, between 1985 and 1986, program appropriations dropped nearly 26 percent, from $900 million to $670 million, and since 1988 have ranged from about $555 million to $574 million.[4] Also, the percentage of funds not allocated to states and held in reserve was raised from 10 percent in 1988 to 15 percent in 1989. While allocations have declined, private developers' interest in the program has increased in recent years. According to FmHA officials, the provisions of the Tax Reform Act of 1986 have encouraged private developers to participate in the program by offering low-income housing tax credits that they can sell at a profit. We reported on the lucrative financial nature of the program during testimony before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce.[5]

The increased use of initial allocations has resulted in a substantial decrease in reallocations. During the period from 1983 through 1987, states returned about 17 percent of their initial allocations to the national office

[4]All monetary amounts are in nominal dollars.

[5]Excessive Profits and Program Abuses in Multifamily Housing (GAO/T-RCED-92-63, May 13, 1992).

for pooling and reallocation at the end of the year. In contrast, states returned only 2 percent of the funds in fiscal year 1992. Even though reallocations have declined, the additional moneys available from the 15-percent reserve together with reallocations have resulted in most states' receiving more money than their initial annual allocations. During fiscal years 1983 through 1992, 30 states used more than their initial annual funding allocations. Five of these states received more than 150 percent of their total allocations determined by the formula. (App. VI provides data on funds allocated and obligated by each state for fiscal years 1983 through 1992.)

Although states have generally used most of their annual allocations in recent years, some states have used less while others have used significantly more. According to the Rural Rental Housing Branch Chief, various conditions affect a state's need for program assistance and, thus, its ability to use its funds. As discussed earlier, if a state's needs estimated by the formula criteria differ from its actual needs for section 515 housing funds because of changing economic trends after the latest Census, the state may need a different level of funding than the allocation determined by the formula provides. In addition to changes in economic trends, project development costs can contribute to a state's use of a different level of funding than this allocation. According to officials in California's state office, higher development costs in that state contributed to the state's use of 56 percent more than its total allocation determined by the formula for fiscal years 1983 through 1992. Hawaii, on the other hand, used only about 67 percent of its total allocation determined by the formula for this period. According to the Rural Rental Housing Branch Chief, a small allocation, coupled with high land and housing costs in Hawaii, decreases the attractiveness to developers of project construction, contributing to the state's lower use of program funds.

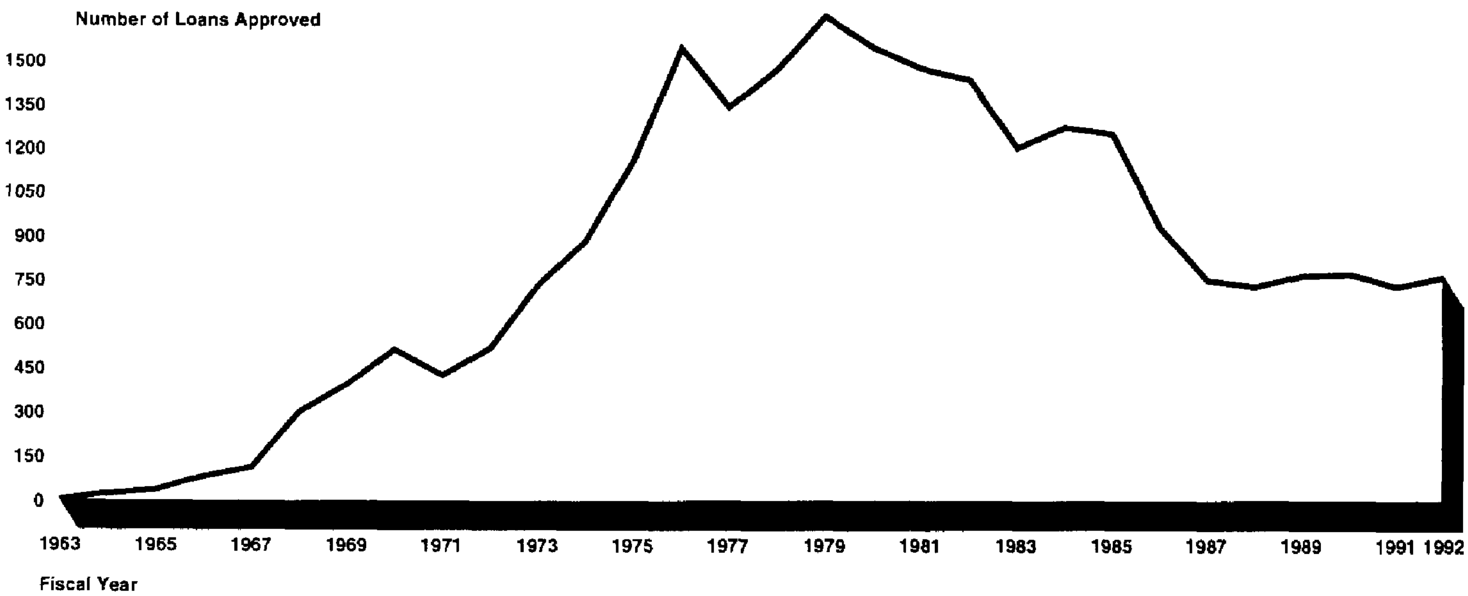
The Number of Outstanding Loans Continues to Increase

The number of outstanding program loans continues to grow each year as new loans are approved and relatively few loans are paid off or otherwise leave the loan portfolio. The program became operational in 1963 when two loans totaling $117,000 were made. By 1979, FmHA had approved 11,132 loans totaling about $3.3 billion. As of September 30, 1992, FmHA had awarded 24,653 loans totaling $12.7 billion. Of these loans, 20,616, or about 84 percent, were still outstanding, with an unpaid principal amount totaling about $10.4 billion. The remaining 4,037 loans had either been paid in full, written off, or closed out through sales of acquired property.

According to FmHA officials, prepayment restrictions on the loans are the primary reason that most of the section 515 portfolio remains outstanding.

As shown in figure 2, the annual increase for the number of loans approved has slowed in recent years from rates during the early 1970s. During the 1970s, the annual increase in the number of loans approved was as high as 42 percent greater than the number of loans approved the previous year. FmHA officials attribute the general increases of the 1970s to changes in the tax code and program provisions that offered borrowers attractive tax incentives and less restrictive participation requirements. In contrast, between 1980 and 1992, the increase in the number of loans approved each year peaked in 1984, when only 6 percent more loans were approved than in the previous year. During this period, loan approvals slowed because of lower program appropriations.

Figure 2: Number of Loans Approved (Fiscal Years 1963 Through 1992)



Source: FmHA Budget Office.

The delinquency rate for projects with outstanding loans ranged from 3 to 5 percent for fiscal years 1989 through 1992. As for write-offs, FmHA records show that the annual rate has generally been around 0.01 percent of the cumulative dollar amount of the loans approved over the life of the program, and at the end of fiscal year 1992, FmHA held 13 projects as a result of defaulted loans. FmHA officials believe that their efforts in managing the portfolio and use of various servicing tools, such as working with the borrower to reduce project expenses, have generally kept delinquency rates at a reasonable level. Furthermore, borrowers have a financial incentive to keep their loans outstanding and current because of the tax credit benefits they would forgo by giving up the loans through repeated delinquencies and eventual default. One FmHA official added that it is unrealistic to expect that no borrower will ever fail to make a payment on time. When delinquencies do occur, officials contend that general economic declines are often the cause. For example, Oklahoma and Texas have had delinquency rates above 10 percent in recent years because of declines in the oil industry, which led to project vacancies, making it more difficult for borrowers to make timely payments.

Agency Comments

We discussed the factual information contained in a draft of this report with the Assistant Administrator for Housing Programs and with other FmHA housing officials. The officials generally agreed with the information presented. They also provided some technical clarifications, which we have incorporated where appropriate. However, as requested, we did not obtain written agency comments on a draft of this report.

We performed our review between December 1992 and March 1994 in accordance with generally accepted government auditing standards. Appendix I provides additional information on our objectives, scope, and methodology.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send 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 VII.

Sincerely yours,

Judy England-Joseph

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

Contents

Abbreviations

FmHA	Farmers Home Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
RHTSA	Rural Housing Targeting Set-Aside
USDA	U.S. Department of Agriculture
WPA	Western Pacific Area

Objectives, Scope, and Methodology

The Chairman, Information, Justice, Transportation, and Agriculture Subcommittee, House Committee on Government Operations, requested that we provide him with information on the Farmers Home Administration's (FmHA) section 515 program. Specifically, we were asked to (1) identify FmHA's procedures for allocating multifamily housing program funds to states and selecting projects within states and whether the housing provided is concentrated in a relatively small number of states; (2) determine the extent to which FmHA allocation and project awards processes reflect actual housing needs; (3) determine the extent to which states have used program funds, including the amount of unused funds that have been reallocated to states; and (4) provide data on the overall size and status of the section 515 program portfolio, as of September 30, 1992.

The scope of our analysis included section 515 rural rental housing loans. We did not review other types of loans made under the section 515 program, such as rural cooperative housing loans. Some of the data we obtained from FmHA reports include these other types of loans; however, FmHA officials told us that, for these reports, no more specific data are available and that the volume of these other loans is too small to affect the accuracy of our analysis.

To identify the agency's process for distributing section 515 funds to states and awarding projects, we reviewed FmHA instructions on fund allocation procedures and loan application processing and discussed the background, intent, and implementation of these procedures with FmHA officials in Washington, D.C., and its state offices in Woodland, California, and Huron, South Dakota. To address whether the housing provided is concentrated in a relatively small number of states, we used data from FmHA's Automated Multi-housing Accounting System data base to identify geographic locations of the projects. To ensure the overall reliability of the system's data, we discussed policies and procedures for internal controls and data accuracy with FmHA. Next, we conducted tests to determine whether the proper data had been accurately and completely transferred from hard copy loan documents into the data base. For this portion of our assessment, we took a sample of records from the data base and compared these records with the original documents in field office loan files. On the basis of the results of our assessment, we believe that the data are sufficient and reliable for our review.

To determine the extent to which FmHA allocation and project awards reflect actual housing needs, we compared project and unit distribution to states' needs as measured by FmHA's allocation formula. We compared this distribution to states' needs only for fiscal years 1987 through 1992 because formula factors for individual states changed in some years. FmHA officials explained that the formula factors for individual states varied between fiscal years 1983 and 1986 due to a transition formula, used in conjunction with the allocation formula introduced in 1983. This transition formula was intended to allow states to adjust gradually to their allocation amounts under the new system. Changes may have also resulted from minor modifications to definitions of the formula criteria before 1986. Individual state formula factors have been consistent since 1986. However, we chose fiscal year 1987 as the first year of our review period because low-income housing tax credits were authorized in the first quarter of that fiscal year. By limiting the review to the period from 1987 through 1992, our analysis of project distribution focuses on a time during which program provisions match current program conditions as closely as possible.

In order to gain an understanding of some of the reasons that potential project locations can have more or fewer projects than the allocation formula indicates that they need, relative to the needs of other potential locations, we discussed the results of our comparisons between project locations and needs estimated by FmHA's allocation and project award processes with officials in FmHA's national office and its California and South Dakota state offices. We selected California because its Riverside County contains more projects with outstanding loans than any other county in the United States. We selected South Dakota because it has the most counties included in the top 100 U.S. counties, in terms of number of projects with outstanding loans.

To determine the extent to which states have used program funds, including the amount of unused funds that have been reallocated to other states, we obtained from FmHA year-end reports on total fund allocations and obligations, by state, for fiscal years 1983 through 1992. We chose this 10-year period because FmHA began using the current allocation criteria and formula weights to distribute funds in fiscal year 1983; fiscal year 1992 is the latest year for which data were available at the time of our review. We discussed the results of our work with officials in FmHA's national office and its California and South Dakota state offices to determine the reasons why a state can use more or less of its initial allocation.

Finally, to determine the size and status of the section 515 loan portfolio, we obtained information from various FmHA reports. Data on loan approvals and on state delinquency rates are based on published FmHA reports.

Fund Allocation and Project Award Processes

Once FmHA's national office determines the amount of program funds a state office will receive based on the allocation formula, the state office has the option of apportioning its allocation at the state level or suballocating the funds to its district offices. If funds are apportioned at the state level, project proposals compete for funding against other proposals statewide. In contrast, if funds are suballocated to the district office, project proposals compete for funding only against other proposals in the same district.

If a state suballocates, it follows the allocation formula that the national office uses to distribute program funds to states. Suballocations to districts in a state are based on county percentages of the state's totals for each of the three criteria set forth in the allocation formula: rural population, occupied substandard housing, and families with poverty-level incomes. Of the state's total formula allocation, the percentage that it suballocates to a specific district is equal to the sum of the formula percentages calculated for each individual county in that district. Before the year-end pooling of unused funds at the national office, funds suballocated in a state may be subject to state office pooling, whereby districts with unused funds return them to the state office for redistribution to other districts within the state. This state pooling is intended to allow states to make full use of their allocations. FmHA's national office does not track the extent of pooling within states.

Whether a state suballocates funds to its district offices or apportions them at the state level, all project proposals are subject to rating under a point system that gives priority to project development in the areas of greatest need, as determined by FmHA. The current system, in effect since fiscal year 1994, assigns points to proposed projects based on the following: (1) the county's percentage of substandard housing, (2) the county's level of median rural household income, (3) geographic proximity of the proposed project location to a nonrural area, and (4) use of donated land for the project site. For the period of our review, the priority point system also incorporated a number of other criteria, including awarding points for projects to serve the elderly, which have been removed under the current point system.

Borrowers submit preapplications proposing projects to the appropriate FmHA district office, where they are rated under the point system and then reviewed for eligibility, in terms of compliance with program requirements, and project feasibility. In order to be considered feasible, preapplications must demonstrate through a professional market study that the proposed project location has a need for and can support the project. Rated preapplications that meet eligibility and feasibility requirements are then ranked in descending order based on the number of points awarded under the priority system. From among all eligible, feasible preapplications on hand at one time, either within a district for those states that suballocate, or statewide for those that do not, the highest ranking preapplications are selected for further processing as funding levels permit. The FmHA state office authorizes formal project applications from eligible borrowers with these highest-ranking feasible preapplications, within the framework of available funds. Once a formal application for a project proposal has been requested, the preapplication is removed from the ranking list and the priority point score becomes irrelevant. The formal applications are then processed, approved, and funded on a first-come, first-served basis. Project approval is a continuous process that allows a state or district to approve preapplications, authorizing formal applications, for total loans up to 150 percent of its allocation or suballocation. By authorizing applications for up to 50 percent over their total allocation or suballocation, states and districts can maintain a continuous supply of approved projects so that, as funds become available, eligible proposals are ready to be financed.

Projects and Units With Loans Outstanding, as of September 30, 1992

	State, in order of number of projects with loans outstanding	Number of projects with loans outstanding	Number of units in projects with loans outstanding	Cumulative percent of all projects with loans outstanding[a]	Cumulative percent of all units in projects with loans outstanding[a]
1	IA	955	14,476	5.81	3.21
2	MO	874	19,158	11.13	7.46
3	MN	775	13,242	15.85	10.40
4	IL	772	11,252	20.54	12.89
5	TX	757	22,593	25.15	17.91
6	MI	621	18,214	28.93	21.95
7	SD	600	6,546	32.58	23.40
8	WI	598	10,935	36.22	25.82
9	IN	575	13,766	39.72	28.88
10	NC	553	20,382	43.08	33.40
11	AL	526	16,255	46.28	37.00
12	MS	481	14,864	49.21	40.30
13	GA	427	14,292	51.81	43.47
14	NY	416	11,899	54.34	46.11
15	KS	408	6,228	56.82	47.49
16	CA	400	17,771	59.26	51.44
17	FL	397	15,426	61.67	54.86
18	OH	397	14,554	64.09	58.09
19	TN	393	36,061	66.48	66.08
20	KY	375	10,374	68.76	68.39
21	LA	356	11,456	70.93	70.93
22	ME	350	7,763	73.06	72.65
23	ND	336	4,813	75.10	73.72
24	SC	332	11,921	77.12	76.36
25	AR	322	8,876	79.08	78.33
26	PA	298	10,126	80.89	80.58
27	OK	292	7,437	82.67	82.23
28	WA	285	8,246	84.40	84.06
29	NE	266	3,436	86.02	84.82
30	WV	251	6,742	87.55	86.31
31	VA	231	8,987	88.96	88.31
32	ID	210	4,195	90.23	89.24
33	OR	199	5,774	91.44	90.52
34	MT	173	2,676	92.50	91.11
35	CO	151	3,530	93.42	91.89

(continued)

	State, in order of number of projects with loans outstanding	Number of projects with loans outstanding	Number of units in projects with loans outstanding	Cumulative percent of all projects with loans outstanding[a]	Cumulative percent of all units in projects with loans outstanding[a]
36	MD	142	4,525	94.28	92.90
37	AZ	102	3,104	94.90	93.59
38	UT	91	2,051	95.45	94.04
39	NH	87	2,869	95.98	94.68
40	NM	85	3,121	96.50	95.37
41	PR	78	5,091	96.98	96.50
42	NJ	77	3,263	97.44	97.22
43	NV	67	1,750	97.85	97.61
44	MA	66	2,167	98.25	98.09
45	WY	65	1,645	98.65	98.46
46	CT	62	2,272	99.03	98.96
47	VT	54	1,333	99.35	99.26
48	AK	35	792	99.57	99.43
49	DE	33	1,101	99.77	99.68
50	HI	18	751	99.88	99.84
51	VI	10	354	99.94	99.92
52	RI	9	301	99.99	99.99
53	WPA	1	50	100.00	100.00
Total for all				**16,434**	**450,806**

[a]Cumulative percentages are approximate due to rounding.

Proportions of Section 515 Housing Compared to Proportions of Formula Allocations, by State

Table IV.1: State Program Activity (Fiscal Years 1987 Through 1992)

Number of projects approved (FY 1987-92)		State's percent of national totals (FY 1987-92)			Cumulative percent of national totals (FY 1987-92)		
Rank	State	Projects	Units	Formula allocations (formula factors, FY 1992)	Projects	Units	Formula allocations (formula factors, FY 1992)
1	TX	5.50	6.58	5.89722	5.50	6.58	5.90
2	MO	4.91	3.48	2.55082	10.41	10.06	8.45
3	IL	4.56	2.39	2.57623	14.97	12.45	11.02
4	NC	4.33	5.54	5.08284	19.30	17.99	16.11
5	MI	3.95	3.91	3.01872	23.24	21.90	19.13
6	KY	3.69	3.01	3.94140	26.93	24.90	23.07
7	GA	3.56	4.37	4.08019	30.50	29.27	27.15
8	FL	3.54	4.39	2.61663	34.04	33.66	29.76
9	MS	3.34	3.27	3.11598	37.37	36.93	32.88
10	CA	3.26	4.80	3.54499	40.63	41.74	36.43
11	WI	3.26	2.05	2.03333	43.89	43.79	38.46
12	LA	3.23	3.13	2.95365	47.12	46.92	41.41
13	AL	3.11	3.10	3.27874	50.23	50.02	44.69
14	NY	3.05	2.77	2.89916	53.28	52.79	47.59
15	TN	2.77	3.43	3.42906	56.06	56.22	51.02
16	AR	2.77	2.76	2.45290	58.83	58.98	53.47
17	IA	2.77	1.78	1.57202	61.61	60.76	55.04
18	MN	2.75	2.32	1.94218	64.36	63.08	56.99
19	OH	2.65	3.37	3.62698	67.01	66.45	60.61
20	SC	2.57	3.14	2.78229	69.58	69.58	63.40
21	IN	2.44	2.36	2.36177	72.02	71.94	65.76
22	VA	2.24	2.82	3.15604	74.26	74.76	68.91
23	ME	2.21	1.68	1.01246	76.48	76.44	69.93
24	PA	2.16	2.33	4.03055	78.64	78.76	73.96
25	WA	2.09	1.87	1.46400	80.73	80.63	75.42
26	SD	1.71	0.93	0.67145	82.43	81.56	76.09
27	WV	1.60	1.59	2.11270	84.04	83.16	78.20
28	OK	1.55	1.77	1.85916	85.59	84.93	80.06
29	KS	1.37	0.94	1.17522	86.97	85.86	81.24
30	NE	1.22	0.83	0.77613	88.19	86.70	82.01
31	PR	1.15	2.15	5.68971	89.33	88.85	87.70
32	OR	1.07	1.37	1.26876	90.40	90.22	88.97
33	CO	1.07	0.96	0.81046	91.47	91.18	89.78
34	AZ	1.02	1.12	1.22772	92.49	92.31	91.01

(continued)

Number of projects approved (FY 1987-92)		State's percent of national totals (FY 1987-92)			Cumulative percent of national totals (FY 1987-92)		
Rank	State	Projects	Units	Formula allocations (formula factors, FY 1992)	Projects	Units	Formula allocations (formula factors, FY 1992)
35	MD	0.92	0.97	1.01880	93.41	93.27	92.03
36	NM	0.74	0.91	1.09067	94.14	94.18	93.12
37	ID	0.69	0.60	0.69537	94.83	94.78	93.82
38	MT	0.59	0.39	0.55681	95.42	95.17	94.37
39	NJ	0.56	0.86	0.71748	95.98	96.04	95.09
40	MA	0.56	0.50	0.93225	96.54	96.54	96.02
41	NH	0.51	0.50	0.50354	97.05	97.04	96.53
42	VT	0.51	0.45	0.43676	97.56	97.49	96.96
43	UT	0.46	0.37	0.40595	98.01	97.85	97.37
44	NV	0.38	0.52	0.17715	98.40	98.37	97.55
45	CT	0.38	0.48	0.50165	98.78	98.85	98.05
46	DE	0.31	0.32	0.23022	99.08	99.17	98.28
47	ND	0.31	0.19	0.49179	99.39	99.36	98.77
48	VI	0.18	0.14	0.00000	99.57	99.51	98.77
49	AK	0.15	0.12	0.43499	99.72	99.63	99.20
50	WY	0.13	0.13	0.30537	99.85	99.76	99.51
51	HI	0.08	0.13	0.37272	99.92	99.89	99.88
52[a]	RI	0.08	0.11	0.11702	100.00	100.00	100.00

[a]Data not shown for the Western Pacific Area (WPA). WPA has a formula factor of 0; instead of an allocation based on the formula, it receives an administrative allocation, an amount sufficient to fund a minimum number of projects in states and territories for which basic formula criteria information is not available. WPA did not obligate any program funds during fiscal years 1987 through 1992.

As shown in the table, 15 states that had 56 percent of all projects and units approved during fiscal years 1987 through 1992 also accounted for 51 percent of total states' needs, as estimated by FmHA's formula. However, as the table indicates, individual state shares of total formula allocations do not necessarily match their shares of projects and units, for a number of reasons. For instance, differences occur because of varying project sizes and differences in the amount of housing states can construct with the funds they receive. However, even if costs and project size were constant across states, variances between proportions of need and proportions of projects and units could still occur because states can use more or less than their formula allocation amounts.

The Rural Housing Targeting Set-Aside Program Directs Funds to Needy Areas

Because potential borrowers, rather than FmHA, decide where projects will be proposed, the neediest areas are not assured of receiving section 515 housing. Although FmHA attempts to influence project locations with its criteria for distributing funds and selecting projects, the agency does not dictate where projects will be built. To increase the likelihood that the neediest areas will be served, in 1990 the Congress established the Rural Housing Targeting Set-Aside (RHTSA) Program under the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625). The act directs FmHA to set aside an amount, prescribed by the Congress, of all rural housing program appropriations to be used specifically for the program. The act also directs FmHA to initially target 100 ccunties for these funds each year. FmHA identifies these counties by applying specific criteria set forth by the act and then identifies the 100 neediest counties that will initially be targeted.

Under the criteria, to be eligible a county must have (1) 20 percent or more of its population at or below the poverty level, (2) 10 percent or more of its occupied housing units classified as substandard, and (3) average per capita rural housing program funds for the previous 5 fiscal years that equal less than 60 percent of the state's per capita average during the same period. To identify the 100 neediest counties, FmHA gives initial preference to those counties with at least 28 percent of their population at or below the poverty level and at least 13 percent of their occupied housing units substandard. If the number of counties meeting the 28/13-percent criteria is less than 100, the remaining counties identified under the 20/10-percent criteria are added in order of highest total percentages of poverty incomes and substandard housing until the list reaches 100. These 100 counties may receive RHTSA funds throughout the year. Those counties considered eligible under the 20/10-percent criteria may receive unused RHTSA funds when these funds are pooled and made available to those counties at the end of the fiscal year. For 1991, FmHA identified 166 eligible counties, while for fiscal years 1992 and 1993, the numbers dropped to 162 and 147 counties, respectively. For fiscal year 1993, 53 eligible counties met the 28/13-percent criteria.

When RHTSA began in 1991, the set-aside amount was 3.5 percent of total section 515 appropriations; the amount increased to 5 percent for fiscal years 1992 and 1993. For fiscal year 1991, the entire RHTSA set-aside was used to fund projects in targeted counties. For fiscal years 1992 and 1993, about 95 percent of the funds were used for RHTSA counties.

Allocation and Obligation of Program Funds by State (Fiscal Years 1983 Through 1992)

	State, in order of percent of total formula allocations obligated	Total formula allocations (FY 1983-92[a])	Total obligations (FY 1983-92)	Percent of total formula allocations obligated (FY 1983-92)
1	ME	$75,009,000	$194,959,505	259.9
2	NV	15,602,500	39,474,630	253.0
3	MD	68,593,000	115,784,882	168.8
4	NH	33,653,000	54,672,767	162.5
5	CA	222,174,820	345,485,320	155.5
6	FL	175,275,000	254,735,382	145.3
7	MS	195,174,000	267,592,689	137.1
8	VT	28,826,500	39,168,667	135.9
9	WA	90,120,700	122,313,040	135.7
10	DE	19,424,900	26,295,470	135.4
11	CO	48,668,000	62,233,668	127.9
12	NY	195,014,500	242,887,247	124.5
13	CT	39,267,400	48,539,190	123.6
14	SD	41,870,500	51,613,111	123.3
15	NJ	59,739,000	73,352,760	122.8
16	SC	166,544,800	202,815,815	121.8
17	MN	119,328,150	142,000,596	119.0
18	LA	190,033,570	224,285,563	118.0
19	AR	146,709,500	167,882,269	114.4
20	NC	331,118,720	376,911,709	113.8
21	GA	232,337,550	259,031,135	111.5
22	MI	219,364,000	242,964,126	110.8
23	OK	108,697,650	120,226,880	110.6
24	UT	24,547,500	26,973,630	109.9
25	IN	151,626,560	166,316,129	109.7
26	TN	203,466,280	219,222,263	107.7
27	MO	159,965,550	170,257,540	106.4
28	WI	125,950,100	133,762,674	106.2
29	AL	199,841,440	210,524,235	105.3
30	VI	13,026,500	13,254,150	101.7
31	VA	187,987,600	184,868,563	98.3
32	KS	74,561,700	72,035,690	96.6
33	NM	62,242,000	58,006,010	93.2
34	KY	255,475,000	236,146,706	92.4
35	AZ	66,173,500	61,053,445	92.3

(continued)

	State, in order of percent of total formula allocations obligated	Total formula allocations (FY 1983-92[a])	Total obligations (FY 1983-92)	Percent of total formula allocations obligated (FY 1983-92)
36	TX	$338,819,100	$307,608,814	90.8
37	WV 1	33,050,000	119,892,242	90.1
38	NE 4	7,981,500	42,366,720	88.3
39	OH 2	14,065,440	184,626,139	86.2
40	WY 2	0,750,500	17,057,549	82.2
41	PA 2	58,181,560	210,435,767	81.5
42	IA 9	3,635,150	75,587,228	80.7
43	OR 7	1,707,000	57,280,730	79.9
44	IL 1	50,726,730	119,828,887	79.5
45	ID 4	1,132,720	32,230,430	78.4
46	MA 5	7,018,400	44,088,710	77.3
47	RI 1	3,084,000	9,914,590	75.8
48	MT 3	7,029,900	27,581,700	74.5
49	AK 2	6,639,000	18,111,900	68.0
50	HI 2	4,117,500	16,046,891	66.5
51	ND 3	0,516,500	16,129,420	52.9
52	PR 3	20,953,000	136,626,624	42.6
53	WPA	31,336,500	0	0.0
Total for all states		**$6,258,154,990**	**$6,663,061,797**	**106.5**

[a]In addition to the basic formula allocations to states, total formula allocations include base and administrative allocations to states and territories. Base allocations are amounts above the computed formula allocation amounts sufficient for each state to fund a minimum number of projects. Administrative allocations are amounts sufficient to fund a minimum number of projects in states and territories for which basic formula criteria information is not available.

Major Contributors to This Report

Resources, Community, and Economic Development Division, Washington, D.C.

Jacquelyn Williams-Bridgers, Associate Director
Jim Yeager, Assistant Director
Rick Hale, Assistant Director
Cheryl Kramer, Evaluator

Chicago Regional Office

John Wanska, Regional Management Representative
Rose Schuville, Evaluator-in-Charge
Leigh Ward, Senior Evaluator
John Zarem, Technical Advisor
Frank Zbylski, Technical Advisor
LaKale Williams, Computer Program Analyst

Kansas City Regional Office

Robert Sommer, Computer Program Analyst

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