United States General Accounting Office 129129

GAO

Report to the Secretary of Agriculture

February 1986

RURAL HOUSING

Opportunities to Reduce Costs and Better Target Assistance

129129

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GAO/RCED-86-33

034596

FmHA RESPONSE

FmHA Instruction 1922-C, Exhibit A states that fair quality construction is defined as a well built home normally acceptable to buyers of small modest homes. This does not preclude low quality homes as described by Marshall and Swift that meet FmHA MPS and thermal standards. We generally expect a home to not exceed fair quality.

FmHA Instruction 1922-C Exhibit A states that the average quality dwelling meets or exceeds local and national building codes and usually exceeds the minimum housing requirements of the home buyer of small but modest houses. This dwelling may meet the FmHA description of above modest in design and cost.

Training on this subject will be a part of the November 1985 rural housing Nationwide training sessions.

7. GAO RECOMMENDATION

--increasing financing of suitable, less expensive, existing houses from the private market.

FmHA RESPONSE

Same as (3).

NEAL SOX JOHNSON
Deputy Administrator
Program Operations

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-214747

February 18, 1986

The Honorable John R. Block
The Secretary of Agriculture

Dear Mr. Secretary:

This report discusses a variety of measures that Farmers Home Administration county offices could take to reduce housing costs and target more assistance to very low-income households and those occupying substandard housing.

The report makes recommendations to you in chapters 2 and 3. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the House Committee on Government Operations; the Senate Committee on Governmental Affairs; the House and Senate Committees on Appropriations; the Senate Committee on Banking, Housing, and Urban Affairs; the House Committee on Banking, Finance, and Urban Affairs; and the Director, Office of Management and Budget.

Sincerely yours,

J. Dexter Peach
Director

Now on p. 26.
See comment 5.

Now on p. 19.

4. Page 15, Paragraph 2 - FmHA asserts that a shortage of very low income applicants who can demonstrate loan repayment ability is a barrier to achieving program objectives. GAO cites census data on page 8 of the draft, showing 6.5 million very low income rural households. Some analysis of the income levels for these 6.5 million households, using HUD income limits, could be useful to rebut or support FmHA's assertion.

Now on p. 39.
See comment 6.

5. Page 26, Paragraph 4 - GAO cites an OIG representative as stating that house size or style was not a problem in reselling houses. Our audit did not specifically evaluate the impact of house style or size on resales. Therefore, we cannot state that the size and style of a house was not a contributing factor impeding some resales. We can state that the main problems identified by our audit as impeding property sales were deficiencies in property management and sales efforts, rather than the market appeal of the houses in inventory.

Now on p. 59.
See comment 7.

6. Page 42, Paragraph 3 - This paragraph cites the authority to finance mobile homes in order to reduce housing costs. While a mobile home would be cheaper, its life expectancy would be substantially reduced from conventional housing. The shortened loan terms on mobile homes may result in monthly payments which are not substantially reduced from typical FmHA mortgage loans. Some analysis of this issue would be useful.

See comment 8.

7. Appendix I - This appendix shows the effect on borrower payments of a 15 percent reduction in the cost of housing. In many instances the monthly borrower payment is not reduced due to FmHA's interest subsidy provisions. Equally important, however, is the monthly interest subsidy cost which would be reduced in most, if not all cases. We would suggest the addition of a column showing savings in the monthly subsidy cost.

See comment 9.

8. Appendix III - Louisiana is shown as having increased very low income loans, while the percentages shown reflect a decrease.

ATTACHMENT 1
Page 2 of 2

Results in Brief

FmHA's performance shows mixed results. While FmHA increased assistance to very low-income households from 24 percent of the loans in 1983 to 30 percent in 1984, the number of loans to both low- and very low-income households decreased about 14 percent. GAO found that FmHA's county offices generally did not adopt cost reduction measures suggested in guidelines by FmHA headquarters. GAO also found that as of October 1, 1985, FmHA had not issued regulations to extend the mortgage period from 33 to 38 years and finance manufactured/mobile homes, which could have enhanced targeting to very low-income households. Many of the FmHA county offices did not follow the guidance provided for increasing targeting to very low-income households and reducing costs because the guidance was not mandatory.

GAO found that a variety of measures might be taken to help improve program targeting to very low-income households. Opportunities also exist to reduce housing costs by as much as $228 million annually if the county offices implemented the cost reduction measures suggested by FmHA headquarters and other measures GAO identified.

Principal Findings

Targeting Results

To implement the law, the FmHA national office provided guidance proposing that county offices initiate outreach programs to locate more eligible very low-income households in need of adequate housing. However, about half of the county offices did not initiate outreach programs. Although FmHA made about 1,440 more very low-income loans in 1984 than it did in 1983, total assistance dropped from 65,000 loans in 1983 to 56,000 in 1984. In addition, FmHA did not meet the 40-percent target for fiscal year 1985—only 23 percent of its assistance went to very low-income households.

According to the 1980 census, more than 2 million rural households occupy substandard housing. The Housing Act of 1949, as amended, and FmHA regulations require that FmHA give preference to those living in such housing. Nevertheless, fewer than 3 percent of the households that received loans in 1983 and 1984 had occupied such housing.

The following are GAO's comments on the Department of Agriculture Office of Inspector General's letter dated October 31, 1985.

GAO Comments

1. We are referring to all FmHA section 502 loans in general in the sentence cited by OIG rather than to 1984 loans only.

2. The report has been revised to reflect the information provided by OIG concerning loans made by one state.

3. The census statistics cited in our report on the number of people occupying substandard housing were compiled from census data for FmHA by the U.S. Department of Agriculture Economic Research Service, which uses the same definition of substandard housing as FmHA, i.e., housing that lacks complete plumbing or has an occupancy of more than one person per room. Therefore, we believe our comparison is appropriate. The census data we cited do not show the number of households occupying substandard housing by the spectrum of income levels; therefore, we could not make the analysis of income levels suggested by the OIG.

4. We modified the report to reflect this program.

5. We cited the 6.5 million very low-income rural households to give perspective on the extent of people in this income range. However, data are not available to make an analysis, using HUD income limits, of how many of the 6.5 million very low-income rural households had the ability to repay their loans, as suggested by OIG.

6. We revised the report to reflect this observation.

7. The purpose of this segment of the report is to point out the need for FmHA to implement authority to finance mobile homes as authorized by the Congress in 1983 rather than to analyze potential differences in the cost of mobile homes and typical homes.

8. The text has been modified to reflect this information.

9. The text has been corrected.

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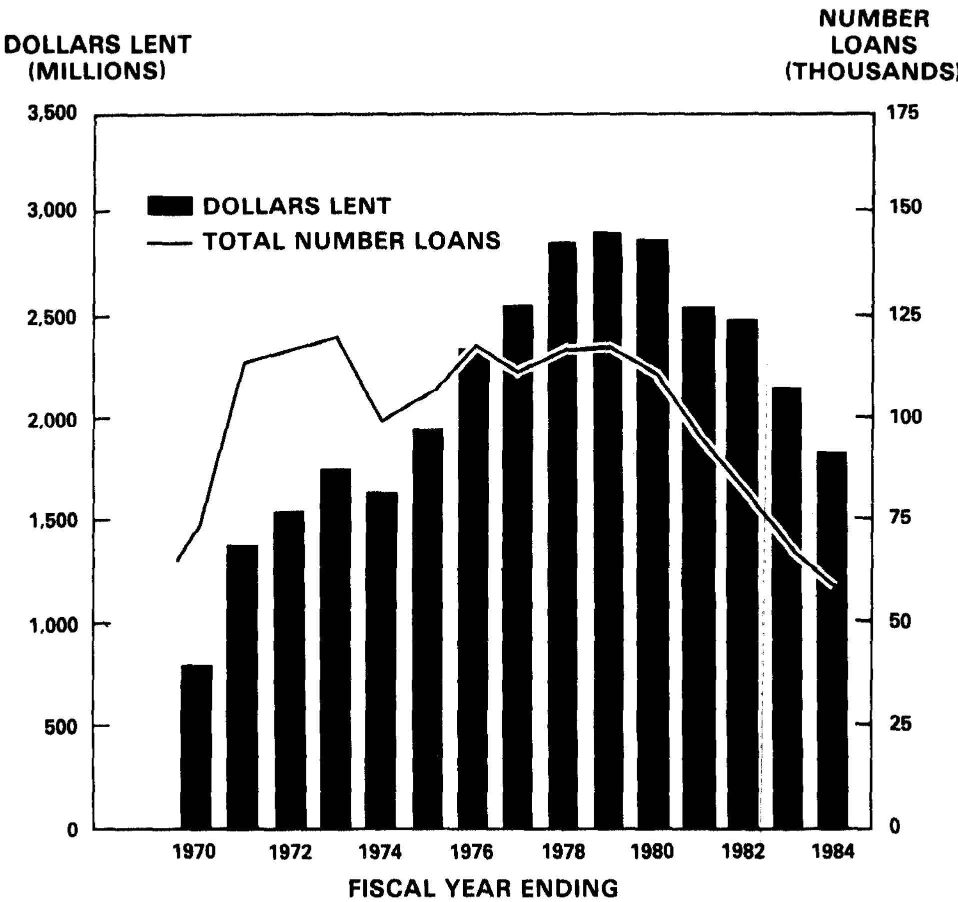
Appendixes

Tables

Abbreviations

AN	Administrative Notice
FmHA	Farmers Home Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
MPS	Minimum Property Standards
OIG	Office of Inspector General
PITI	principal, interest, taxes, and insurance
RCED	Resources, Community, and Economic Development Division (GAO)

Figure 1.1: Section 502 Rural Housing Loans and Dollars Lent



Source: FmHA National Office, Washington, D.C.

The loan program is generally limited to rural areas, which include towns, villages, and other places that have not more than 10,000 people and are not part of an urban area. Loans may also be made in areas with a population in excess of 10,000 but less than 20,000 if the area is not included in a Metropolitan Statistical Area and the Secretaries of the Departments of Agriculture and Housing and Urban Development (HUD) determine that the location has a serious lack of mortgage credit for low-and moderate-income borrowers. In practice, the latter criteria—lack of credit—means any rural area meeting the population requirements, since the Secretaries of Agriculture and HUD determined that there was a shortage of credit in all rural areas in 1984.

rate, and then the subsidy is discontinued. After that time, the borrower's payment remains the same, but the percentage of income that the borrower pays will decrease as income increases.

Targeting of Assistance

To ensure that the neediest households are assisted, the Congress has passed three laws since 1983 containing income-targeting provisions. (See fig. 1.2.)

Figure 1.2: FmHA Section 502 Program Income-Targeting Provisions

Rural Housing Amendments of 1983 (P.L. 98-181) 11/30/83	• Required that not less than 40 percent of section 502 housing units nationwide and not less than 30 percent of each state's units must go to very low-income households. • Required FmHA to use the HUD definitions for low- and very low-income. • Authorized FmHA to extend the mortgage period by 5 years to 38 years in some cases. • Authorized FmHA to finance manufactured/mobile housing.
Supplemental Appropriation for 1984 (P.L. 98-332) 7/2/84	• Eliminated the 40-percent national and 30-percent state very low-income targeting requirements for 1984. • Allocated 70 percent of section 502 funding to low-income and 30 percent to very low-income households. ($1.61 billion - low-income) ($690 million - very low-income)
Housing and Community Development Technical Amendments Act Of 1984 (P.L. 98-479) 10/17/84	• Required that not less than 40 percent of section 502 funds shall be set aside for very low-income households, and not less than 30 percent of the funds allocated to each state must be set aside for very low-income households.

Objectives, Scope, and Methodology

Because of recent legislation requiring that FmHA target funds to the most needy rural households and reduce housing costs to make housing more affordable to these households, we reviewed FmHA actions to satisfy the requirements. Accordingly, our objectives were to determine

- the results of FmHA efforts to target assistance to lower income households,
- opportunities to reduce program costs, and
- who is benefiting from the section 502 program and what type of housing assistance they are receiving.

To accomplish these objectives, we analyzed all 120,000 section 502 housing loans made during fiscal years 1983 and 1984. We also obtained approving between 20 and 80 loans (210 offices) has a 95-percent confidence level with an accuracy of ± 8 percent. Overall, 258 questionnaires were returned within the 2 months allowed for data collection, which represents a 91-percent response rate.

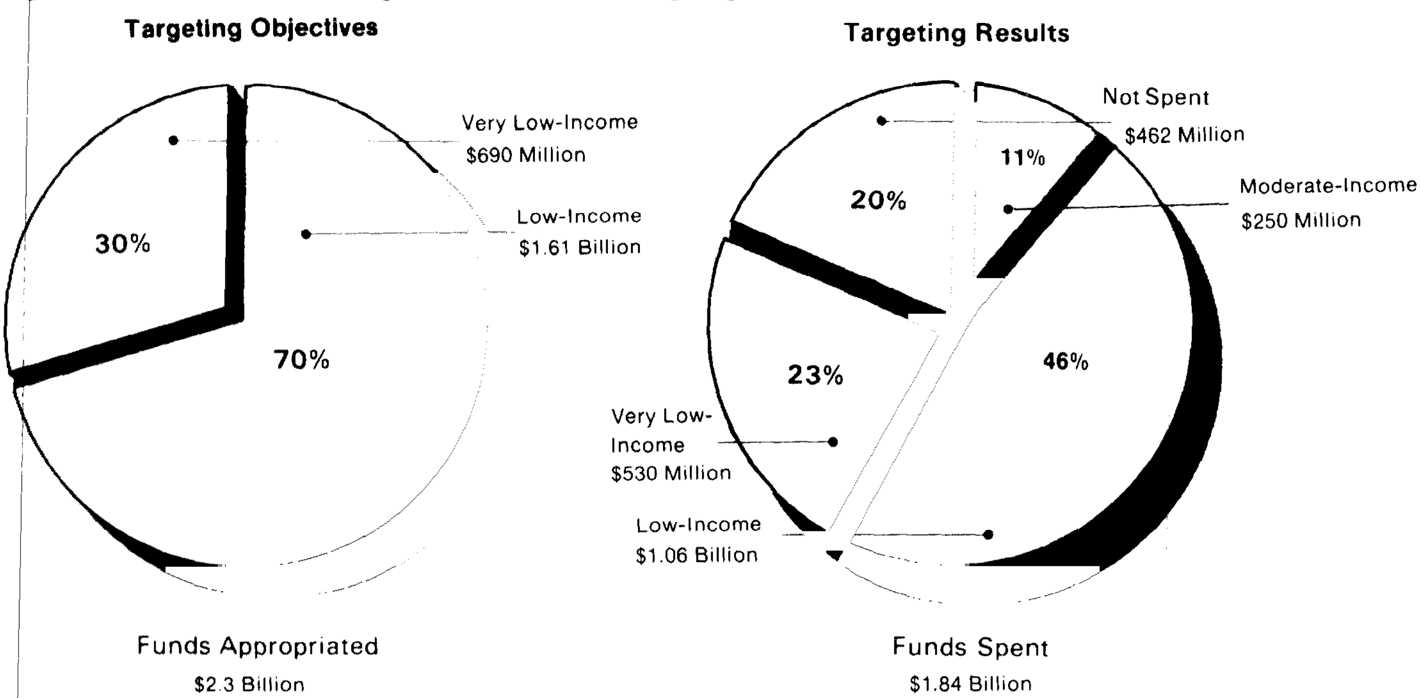
We visited 15 county offices covering 24 counties in 15 states to obtain detailed information on subjects covered in the questionnaire, and to observe new and existing houses in the program. Figure 1.3 shows the locations of the county offices we visited. We selected the offices to obtain a mix of remote rural locations and areas near metropolitan centers throughout the United States. We also visited eight additional county offices to pretest the questionnaire, view typical houses being financed by FmHA as well as private sources, and to obtain additional information on the section 502 housing program. We made our review during the period of February through October 1984. To the extent practical, we also obtained updated or supplemental information through September 1985.

We performed our review in accordance with generally accepted government auditing standards.

National Targeting Results

In 1984 FmHA made about 30 percent of its loans to very low-income households, compared with 23 percent of its loans in 1983. FmHA obligated $530 million for very low-income housing, or 23 percent of the $2.3 billion appropriated by the Congress for section 502 housing. Of the amount appropriated, 46 percent was used for low-income households, 11 percent for moderate-income households,[3] and 20 percent was not spent. The moderate-income households would have been ineligible if FmHA had used the HUD income limits, as required by law, to determine eligibility instead of FmHA income limits, as discussed later in this chapter. Figure 2.1 shows the congressional targeting objectives and FmHA targeting results for 1984.

Figure 2.1: FmHA Section 502 Program Fiscal Year 1984 Targeting Results



Source: GAO calculations based on FmHA data, fiscal year 1984.

[3]The income limit of moderate income households is set at $5,500 above the low-income limit.

According to FmHA statistics, FmHA made 1,440 more very low-income loans in 1984 than in 1983, an increase of about 10 percent. However, one state, which had an increase of 1,560 very low-income loans, accounted for the national increase.[4] The total number of section 502 loans declined 14 percent, from 65,000 loans in 1983 to 56,000 in 1984, although the appropriations were the same each year.

The decrease in 1984 loan activity largely resulted from FmHA's implementation of the 40-percent unit-targeting provisions in the Rural Housing Amendments of 1983. FmHA required that two of every five loans made at the county level be made to very low-income applicants. According to FmHA, there was a shortage of qualified very low-income applicants having the ability to repay loans in some areas of the country, which delayed processing of some low-income applications. About 85 percent of all very low-income applicants for FmHA housing can not show ability to repay the loans and handle all other obligations that might be required of a homeowner, according to FmHA. However, in our view, the decline in housing assistance also occurred because county offices did not initiate adequate outreach measures to identify very low-income applicants or reduce housing construction costs. These measures, which are discussed later in this chapter, were designed to identify more very low-income applicants and make housing more affordable for them.

In addition, FmHA did not meet the 40-percent national target in 1985—only 23 percent of section 502 assistance went to very low-income households. We believe FmHA's inability to meet the national target in 1985 may be attributable to the same conditions as in 1984—failure of FmHA to require cost reduction and outreach measures.

State-Targeting Results

The revised targeting requirement, effective July 2, 1984, dropped the 1984 state-targeting requirement initially required by the Rural Housing Amendments of 1983. However, each state is required to allocate at least 30 percent of its 1985 funds to very low-income households. Therefore, we analyzed 1984 state-targeting results and obtained data for 1985 to determine how well the states have complied with the fiscal year 1985 state requirement. Our analysis showed that in 1984, 14 states made at least 30 percent of their loans to borrowers in this income

[4] Recent audit and investigative work by the Department of Agriculture Office of the Inspector General (OIG) casts some doubt on FmHA's statistics, which show that this state improved loan targeting to very low-income rural residents.

Barriers to Targeting and How They Might Be Overcome

Discussed below are several barriers that affected targeting results in 1984 and some measures that FmHA might take to help increase the level of assistance to very low-income households and those living in substandard housing.

Limited Outreach to Identify Very Low-Income Households

In an effort to comply with the 40-percent legislatively mandated targeting requirement, the national office issued Administrative Notice (AN) 966. This AN provided guidelines to county offices for increasing the number of loans to very low-income households. These guidelines included outreach measures, such as meeting with local housing authorities, real estate brokers, developers, nonprofit organizations for housing, local newspapers, radio and television stations, local churches, and other interested parties to

- advertise and explain the 40-percent very low-income targeting requirement;
- explain the difficulty in finding, in the very low-income category, enough applicants with repayment ability to meet the 40-percent requirement; and
- enlist their help in locating eligible families and persons, and providing information relative to their repayment ability and need for housing.

On the basis of responses to our questionnaire, about half of the county supervisors did not initiate outreach programs. However, of those who did, 80 percent said the outreach effort assisted in identifying more very low-income households. In addition, 7 of the 15 county offices we visited had initiated outreach programs, according to the county supervisors. Data were not available for us to determine the extent that outreach helped identify very low-income applicants. However, the county supervisors at the seven county offices that had made outreach efforts all said the efforts were helpful in identifying more very low-income households. In addition, all seven offices had increased the percentage of loans made to very low-income households or were meeting the targeting goal at the time of our visit in 1984. The county supervisors at the eight locations we visited that had not conducted outreach programs said they had not done so because it was not a requirement or because they were able to meet the targeting goal without outreach.

HUD Income Limits Not Used, Affecting Program Eligibility

The Rural Housing Amendments of 1983 required that FmHA use the HUD income limits established for low- and very low-income households in determining eligibility for section 502 loans. However, FmHA did not implement regulations adopting the HUD income limits until October 1, 1985, and therefore continued to use its FmHA income limits in determining eligibility in 1984 and 1985. According to FmHA, implementation was delayed partly because of the need to implement other changes required by the Rural Housing Amendments, which had to be coordinated with HUD and the Office of Management and Budget.

Generally, HUD income eligibility limits for households with one to three persons are lower than FmHA limits, but those for larger households are higher than FmHA limits. When FmHA did not use HUD income eligibility limits, targeting results were affected because FmHA (1) made loans to some households whose incomes were too high to qualify for the program under the HUD limits and (2) excluded some low- and very low-income households from the program who would have qualified under the HUD limits. The effect of the HUD income limits is discussed in the following paragraphs.

One county office made 20 loans during the first 6 months of fiscal year 1984. Five loans were made to one- or two-person households whose incomes were too high to qualify for the program under the HUD criteria. On the basis of our analysis of nationwide data, we estimated that about 7,700, or almost 14 percent, of the 56,000 loans made in 1984 were to households whose incomes exceeded the HUD eligibility limits.

In 1984 FmHA also excluded some larger families from the program who would have qualified under HUD income limits. National data were not available to estimate the number of applicants who were improperly excluded. Table 2.3 illustrates, for one county office we visited, the impact that the differences in the income limits had on eligibility and income classifications.

example, borrowers paying 20 percent of their income and having an effective interest rate of 1-percent on their loan would need an income of $10,100 for a $42,000 house and would have a monthly payment of $169. If the house price was reduced to $36,000, a reduction of almost 15 percent, the income threshold would be almost 15 percent less, or $8,700, and the borrower's payment would be $145. Table 2.4 shows the effect that house price reductions would have on the income needed by the borrower and the monthly payment required. Appendix I shows examples of the effect of a 15-percent reduction in house price on borrower payments and interest subsidy payments.

Table 2.4: Income Needed at Selected Mortgage Amounts

Mortgage amount	$36,000	$38,000	$40,000	$42,000	$44,000	$46,000
Income needed[a]	8,700	9,200	9,700	10,100	10,600	11,100
Monthly payments[a]	145	153	161	169	177	185

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

Extending the Mortgage Period

The Rural Housing Amendments of 1983 authorized FmHA to extend the mortgage period by as much as 5 years to reduce monthly payments for very low-income households. An FmHA official told us that FmHA anticipates implementing a revision to its regulations during fiscal year 1986 that would authorize county offices to extend the mortgage period. The amendment states that

"The Secretary may extend the period of any loan made under this section if the Secretary determines that such extension is necessary to permit the making of such loan to any person whose income does not exceed 60 per centum of the median income for the area and who would otherwise be denied such loan because the payments required under a shorter period would exceed the financial capacity of such person. The aggregate period for which any loan may be extended under this paragraph may not exceed 5 years."

Extending the mortgage period from 33 to 38 years at 1-percent interest on a $42,000 house would reduce monthly payments by about $14. A longer mortgage period would also permit more lower income households to be served. Table 2.5 shows the effect of extending the mortgage period from 33 to 38 years on the income needed by the borrower at selected mortgage amounts.

homes could lower the income needed to purchase a house and therefore make housing more affordable. In addition, using the HUD income limits for determining eligibility should help FmHA increase assistance to very low-income households. Under HUD limits larger families can qualify as very low-income households with higher incomes than under the FmHA limits. Opportunities to reduce housing costs, which could also help improve targeting, are discussed in chapter 3.

Recommendations to the Secretary of Agriculture

We recommend that the Secretary of Agriculture take the following measures:

- Implement regulations to extend the mortgage period from 33 to 38 years and finance manufactured/mobile homes.
- Consider a variety of measures that could be taken to target more housing assistance to very low-income people in rural areas. These include (1) establishing targeting performance goals for county offices, (2) pursuing a more aggressive outreach program to identify very low-income households and those living in substandard housing, and (3) following up on county office efforts to target assistance to very low-income households and those living in substandard housing.

If FmHA finds it is unable to meet targeting goals, it should so advise the Congress.

Agency Comments and Our Evaluation

In commenting on a draft of our report (see app. VI), Agriculture agreed to our recommendations and stated that it is in the process of taking actions in response to them. In this regard Agriculture said it has drafted, and is in process of clearing, a proposed regulation for increasing "the maturity of section 502 loans" from not more than 33 years to not more than 38 years. In addition, Agriculture said it has drafted a proposed regulation for financing manufactured/mobile homes and sent it to the Office of Management and Budget on May 17, 1985, for review.

Agriculture also said that discussion sessions will be part of nationwide rural housing training that will consider measures to target more housing assistance to very low-income rural households. Each state will be requested to develop a management plan on how to achieve full utilization of very low-income funds.

FmHA has recognized that additional changes are needed to achieve the cost reductions proposed. Measures that FmHA could consider taking to reduce housing costs and improve program targeting include

- establishing criteria for limiting the living and and non-living area in new houses;
- developing procedures for matching the number of bedrooms to the number of people in the household;
- setting specific limits on certain features provided in each new house;
- increasing the use of duplexes and townhouses where feasible;
- enforcing the use of modest construction standards for FmHA county offices; and
- ensuring that, where appropriate, less expensive existing private housing be given first consideration by county offices when processing loan applications.

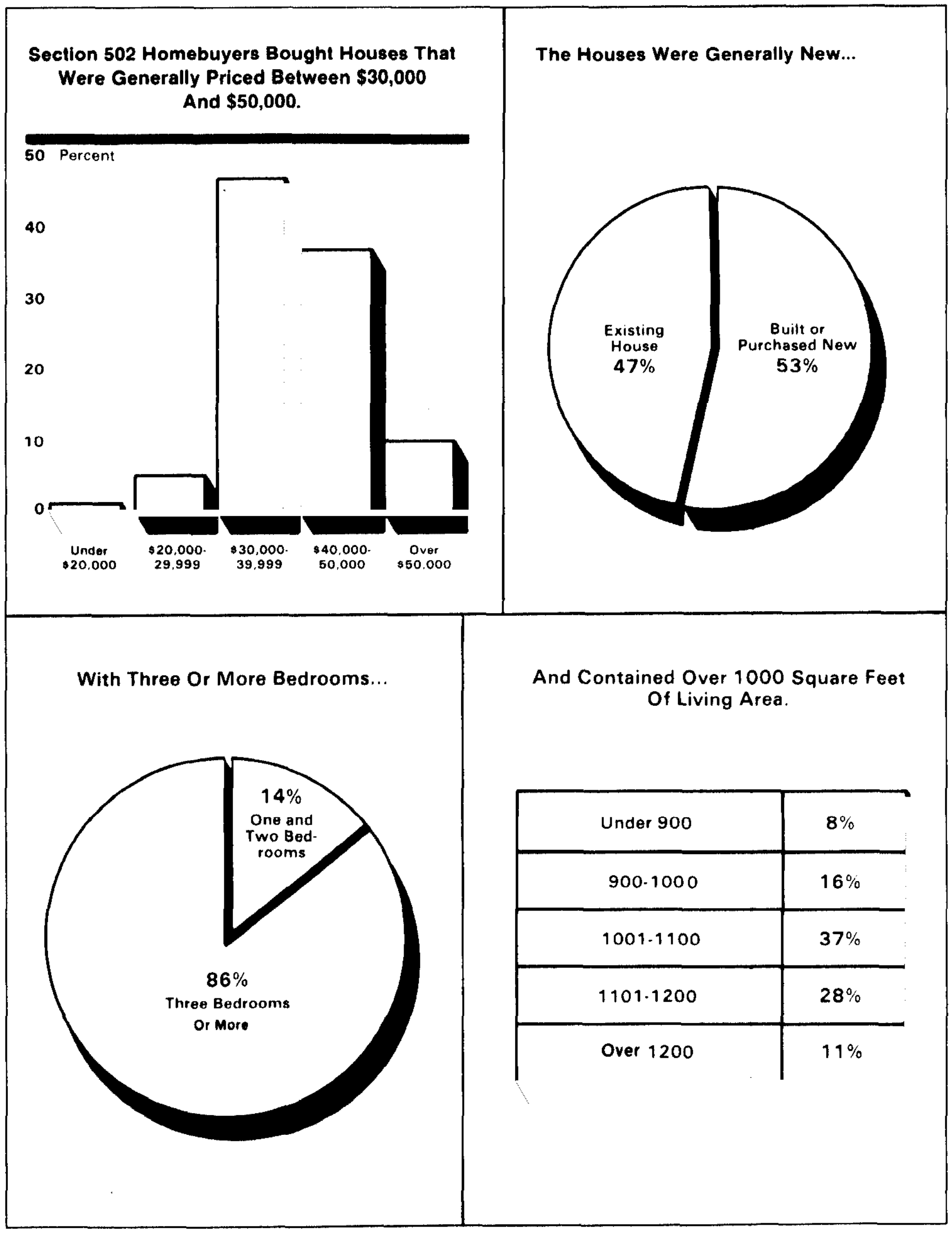
Trends in FmHA Housing Costs and Sizes

Since 1975 the average price of an FmHA new house has nearly doubled, while FmHA borrower income has lagged behind, increasing only about 50 percent during the same period. Since 1975 the average price to household income ratio has increased from 2.37 to 3.35. These trends have made it necessary for FmHA to reduce the size of houses it finances to help reduce costs, minimize subsidies, and provide affordable houses to as many low- and very low-income households as possible.

Since 1975 FmHA has twice reduced the maximum allowable living area for FmHA-financed houses to help control costs. In 1977 FmHA reduced the maximum living area from 1,400 to 1,300 square feet. In 1978 it again reduced the maximum living area to 1,200 square feet; and 2 years later it included in FmHA Instruction 1944-A to its field offices a general description of a modest style new house, which would be appropriate for FmHA borrowers. This definition, which is still in effect, states that

> "Dwellings to be built or purchased new must provide decent, safe and sanitary housing that is modest in size, design and cost, and consistent with the market in the area . . . modest housing may include 3 bedrooms and 1-1/2 bathrooms if such a dwelling is within the applicant's repayment ability and is typical of other dwellings owned or being built in the area by persons with similar incomes . . . . The dwelling will contain no more than 1,200 square feet of living area. When the size of the household results in an average of more than two persons per bedroom a larger dwelling may be justified to provide adequate sleeping space."

Figure 3.1: Housing Characteristics (Fiscal Year 1984)



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

Source: GAO calculations based on FmHA data, fiscal year 1984.

unless specific criteria are incorporated into FmHA regulations making cost reduction mandatory, and (3) would deter builders from participating in the program.

Cost Reduction Measures Could Be Made Mandatory

The FmHA national office did not make cost reduction measures mandatory and did not follow up on its cost reduction proposals to encourage their implementation. National office officials informed us that each FmHA state office operates a unique housing program under a variety of construction requirements and local needs. They said that because of this, cost reduction initiatives would likely vary among states, with some having to implement more of the initiatives than others to reduce costs.

Few states, however, reduced costs. For example, in the 15 states where we visited county offices, state officials informed county staffs of national office concerns over reducing costs, but none of the county offices adopted mandatory cost reduction policies and none had incorporated follow-up procedures to monitor the progress of actions taken at the county office level. FmHA state officials from three states did not believe cost reduction measures were feasible because, in their view, houses were already as inexpensive as possible. FmHA county offices usually had the ultimate responsibility for determining the feasibility of specific cost reduction measures as they applied to their counties, but none changed their housing programs. County office officials we talked with generally said that unless cost reduction measures were made mandatory by FmHA and supported by clear instructions, criteria, and goals, few measures, if any, would be implemented at the county level.

Discussions with county office officials and our study of pertinent documents indicate that FmHA Instruction 1944-A permits county office officials a wide latitude and that, because of this, the voluntary system of implementing cost reduction measures has not been successful. County office officials said that FmHA Instruction 1944-A does not provide them with clear rules to deny an applicant's preference for a certain house even though the house may be larger than the applicant's household needs. FmHA Instruction 1944-A requires county supervisors to counsel families on their housing needs, but according to these officials, as long as a loan applicant can demonstrate the ability to repay the loan and the house does not exceed FmHA's definition of modest housing, it is difficult to disapprove the applicant's choice. Because the definition of modest housing only covers basic factors, e.g., 1,200 square feet, 1-1/2 baths, much sooner than a new house. While an applicant might have to wait about 12 to 18 months for a new house, the applicant could purchase a resale house much sooner, according to the county supervisor. He also has an agreement with a real estate agency, which he said allows him to sell his inventory houses with relative ease.

To obtain additional information on marketability and resale, we contacted realtors at 11 county offices. Nine said there would be little difficulty in selling smaller homes with fewer features. Six realtors said such houses are attractive to young couples and the elderly or retired. One said the demand for small houses has actually risen because of smaller families and an increase in single-parent households. Four also pointed out that the attractiveness of low-interest FmHA financing is a more important selling point than the type of house being sold.

In 1983 the Department of Agriculture Office of Inspector General (OIG) performed a nationwide study of FmHA's procedures for reselling its inventory houses. The main problems identified by the OIG audits as impeding property sales were deficiencies in property management and sales efforts, rather than the market appeal of the houses in inventory. A public interest group, which has studied rural housing needs and programs, said FmHA has over-emphasized the importance of resales. They said that because direction of the section 502 program has shifted to making loans to low- and very low-income households, providing less expensive houses is the way to assist these groups.

Concerns Over Homebuilder Participation

Some county office officials were concerned that some builders might be reluctant to continue in the program if smaller houses with fewer features and alternative housing styles were emphasized. Some reasons the officials gave were that many builders would not want to risk their reputations or cut into their profit margins by constructing smaller houses. However, in several locations as many as 14 builders had constructed FmHA houses in the year preceding our visit, and county supervisors at these locations said that, overall, there had been a sufficient number of interested builders.

We interviewed 19 builders at the 15 locations we visited to obtain their views and opinions on FmHA's proposed cost reduction measures. Fourteen builders said they would continue to build for FmHA if they were asked to construct smaller houses, two said they would not build smaller houses, and three said they were undecided.

Finance Smaller Houses

FmHA could reduce new housing construction costs by financing houses with smaller living areas and eliminating non-living areas, such as garages, carports, and basements, as discussed in the following sections.

Reduce Living Area

FmHA could have reduced costs in 1984 by as much as $72 million by reducing the living area in new houses. In 1984 FmHA financed a wide variety of housing styles, including ranchers, cape cods, split-foyers, split-levels, and two-story houses. Although the average living area of new houses was 1,071 square feet, the average living area of about 40 percent was larger than 1,100 square feet.

FmHA limits living area for new houses, overall, to 1,200 square feet, regardless of the number of bedrooms in the house. It has no limits on the living area of houses with one, two, three, or more bedrooms. Consequently, this has allowed some county offices to finance one- and two-bedroom houses that are larger than some of its three-bedroom houses. In 1984, for example, the new one-bedroom houses financed by FmHA averaged 1,029 square feet of living area compared with 978 square feet in the average two-bedroom house.

Since FmHA had no specific living area limits according to the number of bedrooms, we developed, for illustrative purposes, size limits for each bedroom size in conjunction with FmHA national office architectural staff to determine the adequacy of the living area in new houses. In developing these individual limits, we used as our baseline a floor plan FmHA developed in the late 1960's for a three-bedroom, ranch-style house with 960 square feet of living area. (See fig. 3.2.) The architectural staff said this house plan was one of the most frequently used plans in the late 1960's and was considered sufficient in size for a three-bedroom house. We used the plan as the baseline because 86 percent of the new houses FmHA financed in 1984 had three bedrooms. We then used FmHA minimum property standards to adjust the 960-square-foot standard to establish limits for one-, two-, and four-bedroom houses. Although FmHA had no limits on the number of bedrooms in houses, it has limits on the size of one-, two-, three-, and four-bedroom apartments in its section 515 multifamily rental program.

Table 3.3 compares the living area limits we developed with those used in FmHA's multifamily rental program. It shows that the limits we developed are similar to rental unit limits for two-, three-, and four-bedroom units and somewhat larger for one-bedroom units, and thus provided a reasonable basis for determining the adequacy of living area in FmHA houses.

Table 3.3: Living Area Limits Used by GAO Compared With Standards Used by FmHA in Its Section 515 Multifamily Rental Program

	(square feet)	
Number of bedrooms	GAO-developed limits[a]	FmHA section 515 multifamily standards[b]
1	770	570-700
2	850	700-850
3	960	850-1,020
4	1,130	1,020-1,200

[a]Developed in conjunction with FmHA architectural staff.

[b]FmHA uses these minimum standards for planning and designing multifamily rental units.

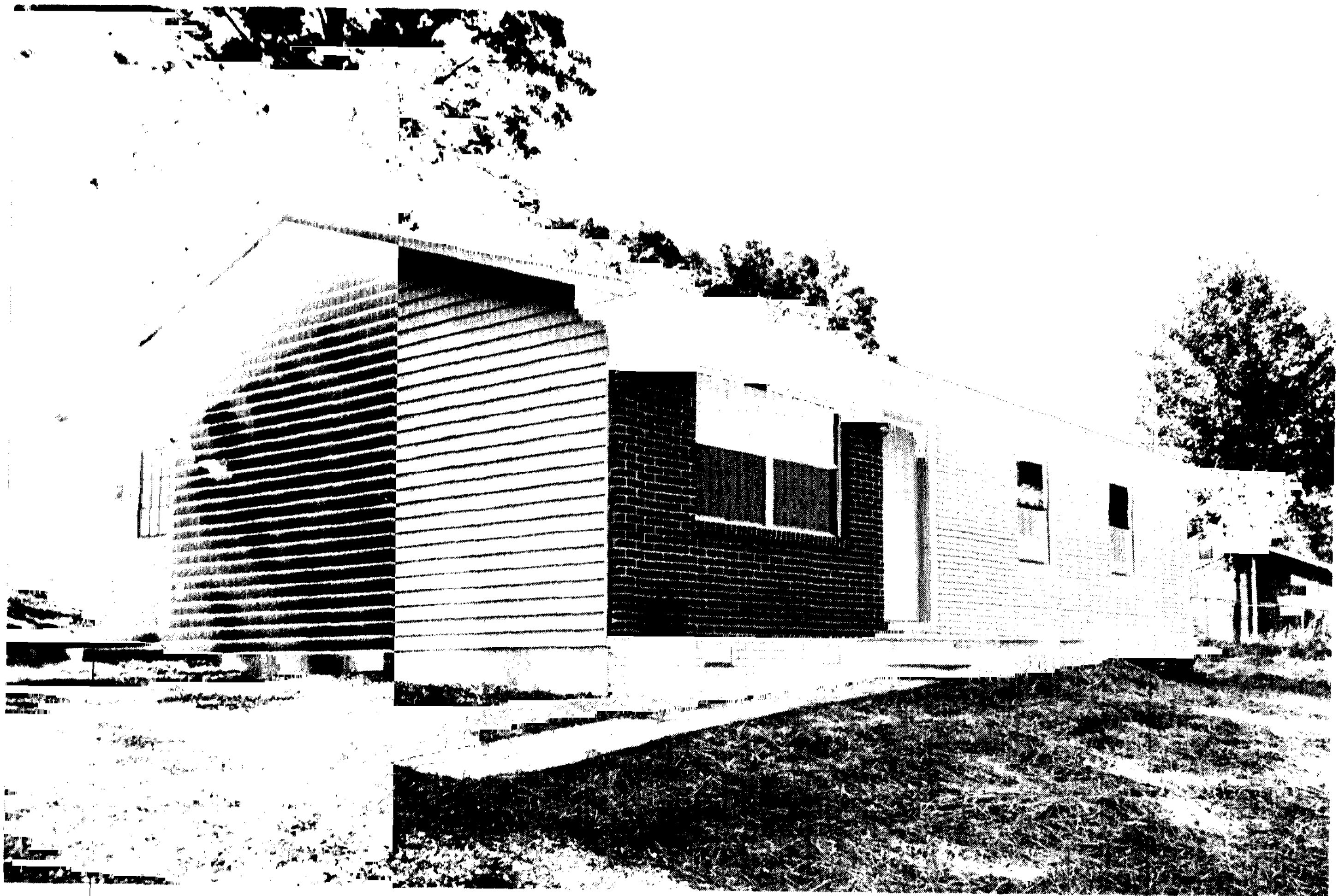
We estimated that about 89 percent of the new houses FmHA financed during fiscal year 1984 had more living area than the size limits we developed. Table 3.4 shows the extent to which FmHA's houses were larger than our limits.

Table 3.4 Living Areas in New Houses Financed in Fiscal Year 1984 Compared With Size Limits Developed by GAO

	(square feet)		
Number of bedrooms	Average size of FmHA house	GAO-developed limits	Difference in living area
1	1,029	770	259
2	978	850	128
3	1,081	960	121
4	1,213	1,130	83
Average	1,071		120

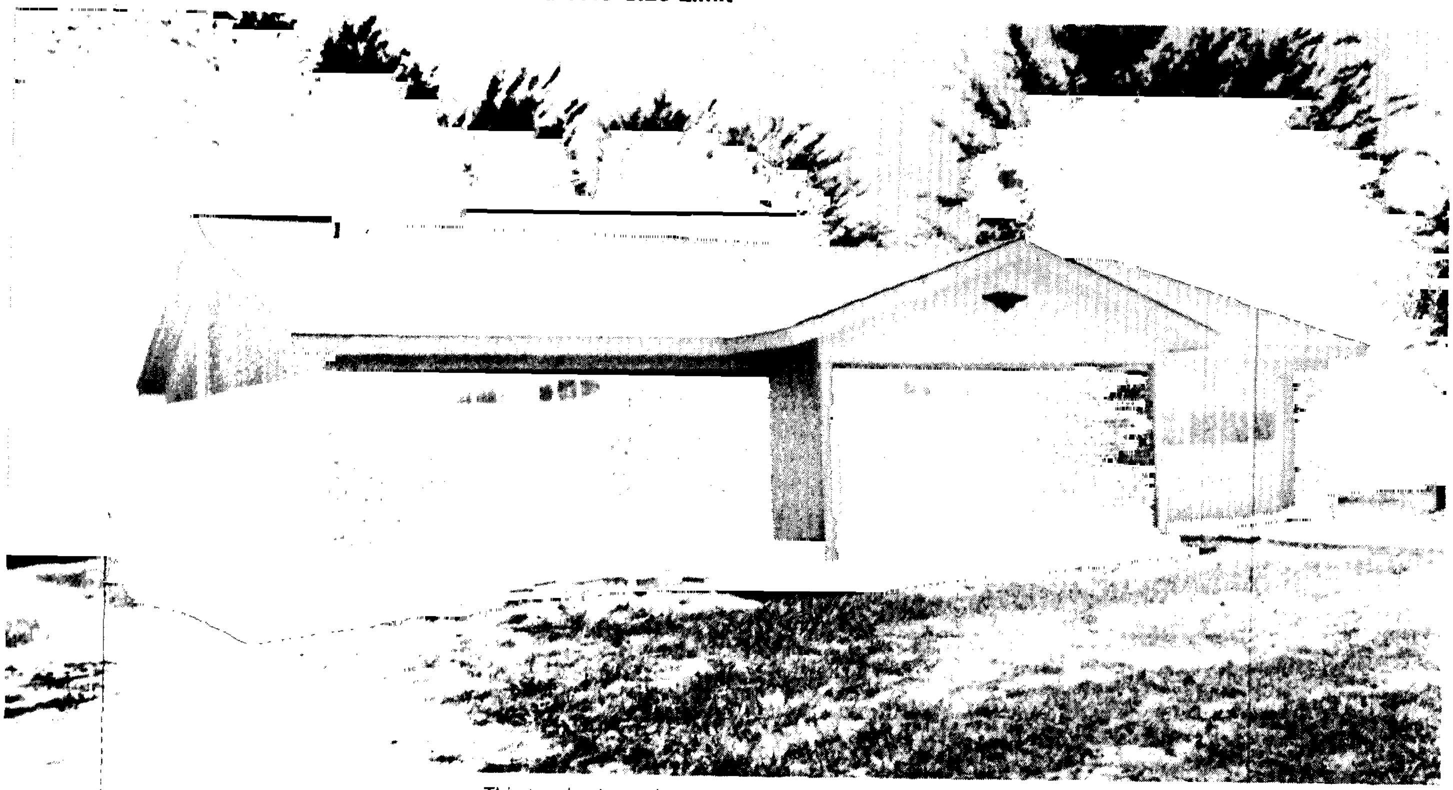
For example, the average three-bedroom house, which is typical of the section 502 program, exceeded the 960-square-foot, three-bedroom baseline house by an average of 121 square feet. Overall, the new houses exceeded our limits by an average of 120 square feet per house. Although the majority of houses was larger than the living area limits we developed, some county offices had financed smaller houses prior to

Figure 3.3: Three-Bedroom House That Met GAO Size Limit



This three-bedroom house had 960 square feet of living area and met our size limit. During 1983 and 1984, this county office financed three houses of this size.

Figure 3.5: Two-Bedroom House That Exceeded GAO Size Limit



This two-bedroom house, which cost $35,210, was typical of other FmHA houses financed in another county. It had 1,024 square feet of living area, or 174 more than our 850-square-foot limit.

The average new FmHA-financed house in fiscal year 1984 had a total area of 1,466 square feet, 395 of which was designated as non-living area. On the basis of our analysis of new housing loans, 13 percent of the houses had a total area of over 2,000 square feet, and 52 percent had over 1,500 square feet. A national office official stated that larger houses, which have extensive non-living areas, are generally the most expensive in the program. For example, in 1984 the average cost of an FmHA-financed one-story house with a basement was about $2,700 more than a one-story house without a basement.

By limiting non-living area to about 100 square feet for storage and utility space, which is twice as large as required by minimum property standards for storage area, we estimate that FmHA could reduce costs by about $3,500 on a house that is currently constructed with a garage; about $2,700 on a house with a basement; and about $1,300 on one with a carport. This could also reduce government subsidy costs and decrease maintenance costs for property owners. Table 3.5 shows that costs could be reduced by up to $61 million on 30,000 houses by eliminating all basements, garages, and carports. However, there might be special circumstances where these features would be justified. These cost reduction estimates were based on our questionnaire results and discussions with homebuilders at 15 county offices.

Table 3.5: Estimated Annual Cost Reduction If Major Non-Living Area Features Are Eliminated

Dollars in millions

Non-living area feature	Percentage of FmHA houses with feature	Estimated cost of feature	Estimated cost reduction if feature eliminated
Basement	24	$3,500	$25.2
Garage	33	2,700	26.7
Carport	23	1,300	9.0
Total			**$60.9**

Figure 3.7 shows a house built for an FmHA borrower. In this case, one-story houses, which could have been constructed without garages, were available to the borrower at a lower cost.

households to the number of bedrooms in houses financed. FmHA routinely approves three-bedroom houses for families and individuals whether they need them or not. In fiscal year 1984, 86 percent of the new houses had three bedrooms even though the average household had about three persons, demonstrating that FmHA was providing about one bedroom for each person. If FmHA would match the number of bedrooms to household size, it could reduce housing costs by as much as $23 million to $38 million annually, again using an estimated annual construction of 30,000 houses.

FmHA does not have specific criteria for determining optimum occupancy levels for its houses. FmHA Instruction 1944-A provides that county supervisors should counsel applicants regarding the type of house necessary to meet their needs, but the only reference to occupancy levels in the instructions is

> "The dwelling unit will contain no more than 1,200 square feet of living area. When the size of the household results in an average of more than two persons per bedroom a larger dwelling may be justified to provide adequate sleeping space . . . ."

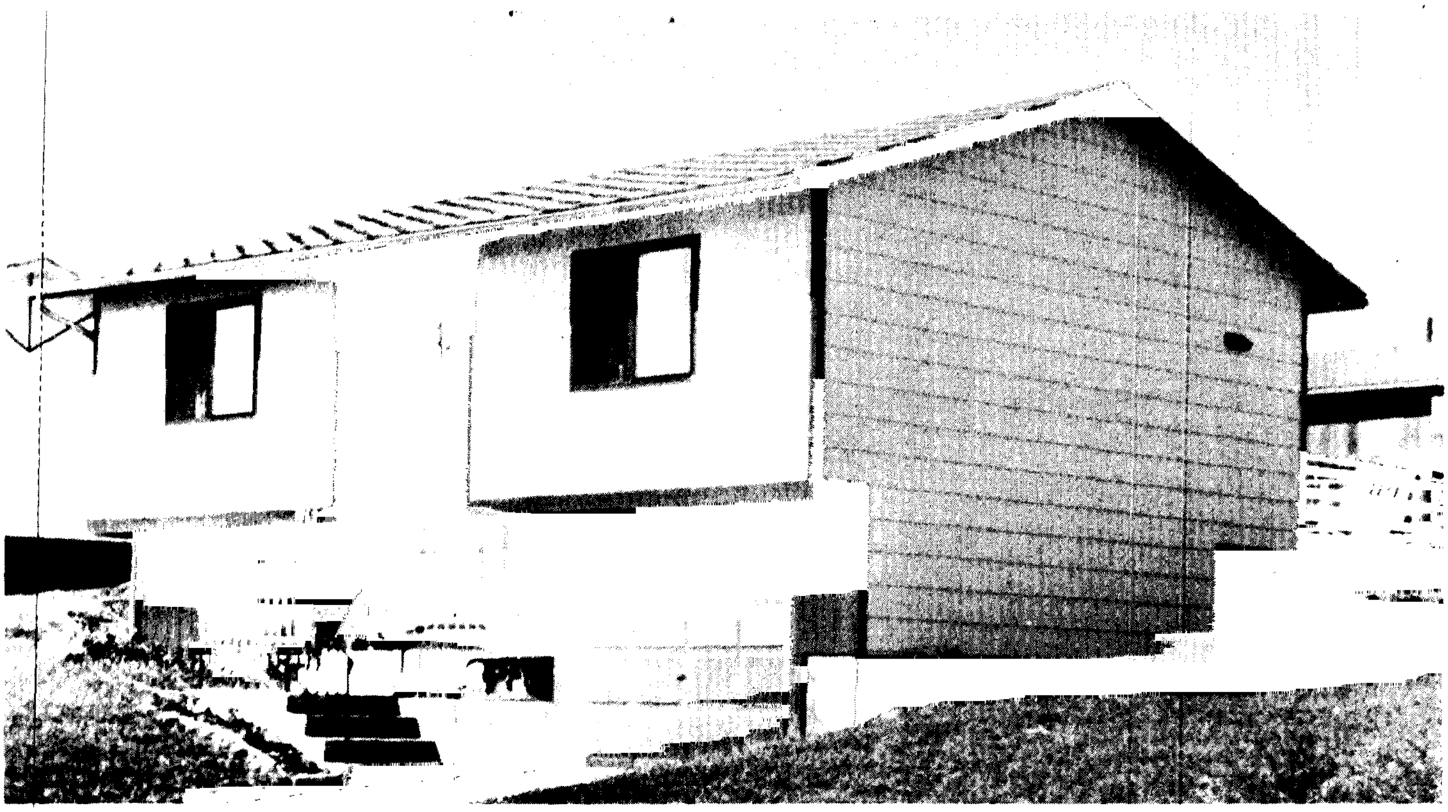
Because FmHA does not have specific occupancy criteria for the section 502 program, we used its criteria for the section 515 multifamily rental program to assess how well bedrooms are allocated in new houses. These criteria are used for evaluating occupancy needs in subsidized rental units and give the minimum and maximum number of occupants for each size apartment, e.g., one-bedroom, two-bedroom, three-bedroom, etc. Table 3.6 shows the recommended minimum number of occupants for various-sized units. In a three-bedroom unit, for instance, the criteria state that there should be a minimum of four occupants.

Table 3.6: FmHA's Recommended Number of Occupants for Rental Units

Number of bedrooms	Minimum number of occupants
1	1
2	2
3	4
4	6
5	8

Table 3.7 shows the percentage of houses financed in 1984 by number of bedrooms found to be underoccupied when we applied the FmHA rental

Figure 3.8: Three-Bedroom House Occupied by One Person



A county office approved this $48,000, three-bedroom house for a 45-year-old single person. The county supervisor said he did not have the authority to tell the borrower that she could not buy a house, which, in his view, was excessive for her needs.

Eliminate Certain Features

Features such as decks, patios, and bay windows can add significantly to the price of a new house. Although FmHA suggested that field offices eliminate these and other features, many offices were still approving them in 1984 because FmHA had not required that the features be eliminated.

FmHA AN 966 proposed that its field offices reduce costs by (1) excluding features, such as porches and decks, sliding glass doors, picture and bay windows, and central air-conditioning and (2) limiting three-bedroom ranch-style houses to one bathroom. On the basis of our questionnaire data, these features and two other features—paved driveways and excess porches (beyond minimum property standards (MPS))—could add

Table 3.10: Estimated Annual Cost Reduction by Eliminating Certain Features on New Houses

Feature	Percentage of new houses with features[a]	Cost reduction per house if feature eliminated[b]	Total potential cost reduction[c]
Features identified for elimination by FmHA			
Decks/Patios	8.8	$ 550	$ 1,452,000
Sliding glass doors	14.8	340	1,510,000
Picture/Bay windows	16.5	300	1,485,000
Air-conditioning	20.1	1,340	8,080,000
Features identified by GAO			
Excess porches (beyond MPS)	3.9	540	632,000
Paved driveways	49.0	840	12,348,000
Total			**$25,507,000**

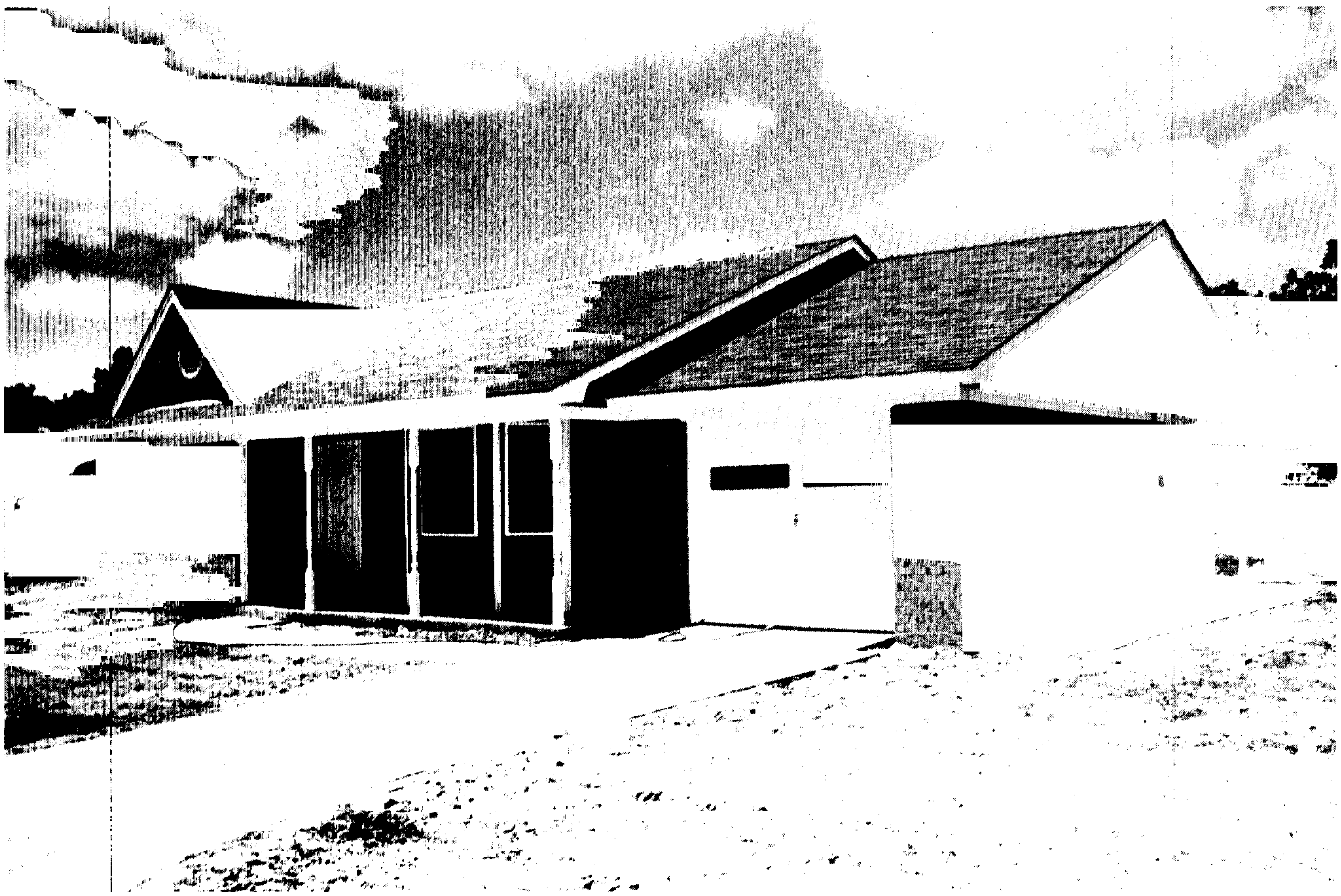
[a]1983 data.

[b]The cost reductions are averages of estimates provided by county officials in our nationwide questionnaire.

[c]Based on an annual production of 30,000 new housing units.

Figures 3.9 and 3.10 illustrate a number of the features county supervisors approved on new houses. Figure 3.11 shows a smaller house where such features had been eliminated by the county supervisor to help cut costs.

Figure 3.9: Three-Bedroom House With Extra Features



This $37,000 house had an extra porch, a front bay window, and sliding glass doors, which added about $1,300 to the cost of the house.

An FmHA official told us that the earliest that FmHA would be able to implement this change would be December 1985.

Duplexes and Townhouses

Duplexes and townhouses usually have a common wall with at least one other unit. This allows for the use of smaller parcels of land than detached houses. This construction style has increased in popularity in recent years, particularly in areas of rising costs and where land is scarce. According to FmHA officials, very few of these houses have been built in rural areas because rural land is normally less expensive and more available than land in other areas. FmHA AN 966 suggested that state and county offices consider increasing the use of duplexes and townhouses to cut costs and help additional very low-income borrowers qualify for assistance.

During fiscal year 1983, only about 2 percent of FmHA's new construction was for duplexes and townhouses. Our questionnaire data showed that production of these units actually decreased in 1984. In 1983 and 1984, only 70 and 61 counties, respectively, were involved in financing these units. We discussed this with officials of 17 county offices, 3 of which had financed these units in the past. They provided estimates ranging from \$3,000 to \$18,000 in potential savings on these units as compared with detached homes. Officials at the 14 locations that had not financed such units said they had no plans to do so because they are reluctant to deviate from the traditional housing styles financed by FmHA. However, such units were in use or under construction in the private market in five of these locations, indicating that such housing was a reasonable alternative at these locations. For example, at two county offices, builders had constructed duplexes for commercial sales and priced them at \$5,000 to \$8,000 less than FmHA detached houses. In another location FmHA had financed a duplex for its rental program for about \$11,000 less per unit than section 502 program houses. At two other locations, there were a few private market townhouses, but they were more expensive because they included many amenities.

The three county offices that financed duplexes or townhouses had favorable opinions about them. For example, one county office, with some encouragement from the state office, began financing duplexes in 1979 to offset escalating land prices, and through 1984 had approved loans on about 210 units. The county supervisor said there were few problems in marketing the units because of the large demand for FmHA housing. Another county office was in the process of completing its first townhouses and expected to reduce costs approximately \$4,000, or about 10 percent, compared with the cost of a typical detached house. The county supervisor said that selling these houses would not be a problem. Our questionnaire data indicated however, that when given a choice, FmHA applicants usually preferred detached houses over duplexes or townhouses.

Homebuilders at 12 of the locations we visited said they would consider constructing duplexes or townhouses and that this would result in cost savings. At two locations FmHA homebuilders were already building duplexes in the private market and were selling their units for less than FmHA detached units. Another builder said he was preparing a proposal for duplexes, which he planned to discuss with the FmHA county supervisor.

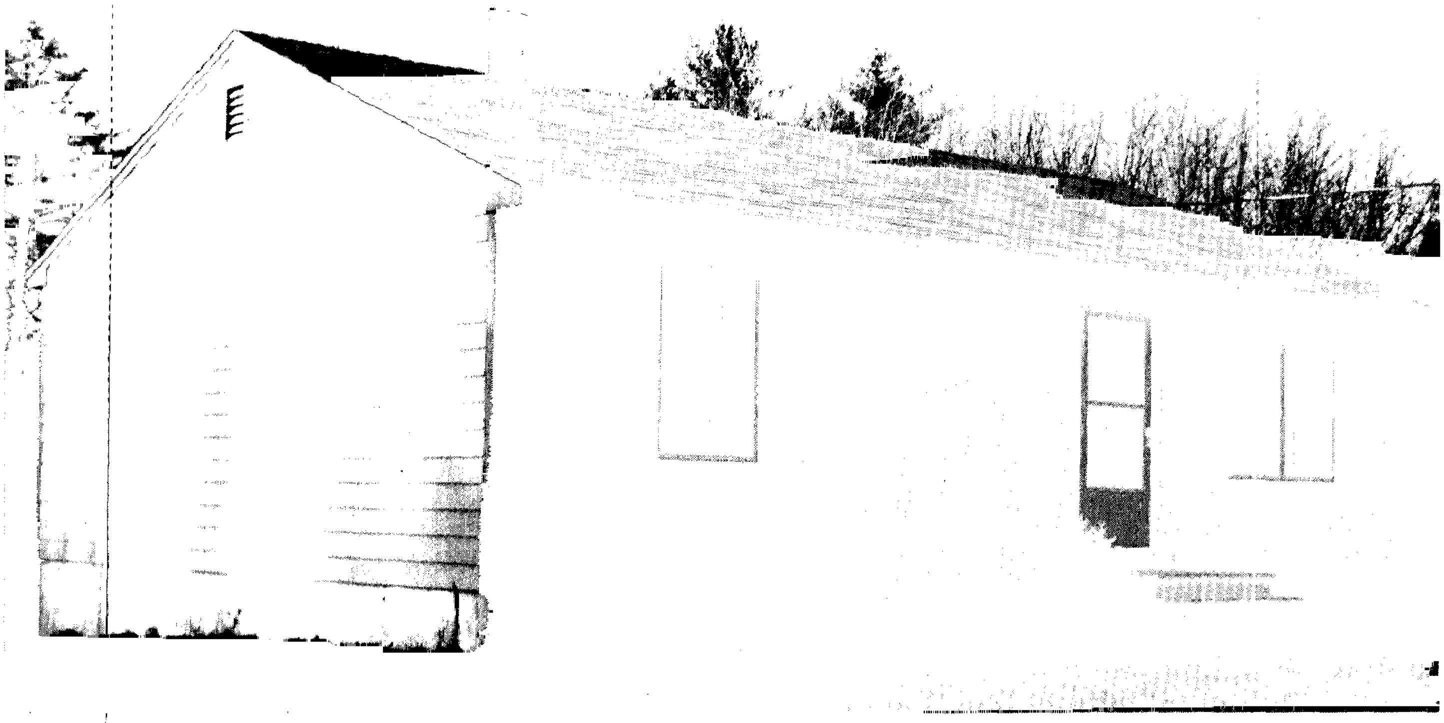
On the basis of questionnaire data and our visits to 15 county office locations, we believe FmHA could reduce costs up to $8 million a year if duplexes and townhouses were increased from the fiscal year 1984 level of 400 units to approximately 3,000 units. The 3,000-unit total would be equivalent to about 10 percent of all new units financed assuming a housing program of 30,000 units.

Use "Fair" Construction Standard

FmHA state offices have adopted or permitted the use of construction standards exceeding those recommended by the FmHA national office. This increases costs up to $5,000 per house on about 21 percent of the new houses financed in 1984. Consistent use of the FmHA-recommended standards could have reduced annual costs by about $6 million to $31 million.

Industry-recognized construction standards provide for six levels of construction quality, which, ranging from the lowest to highest, are (1) low, (2) fair, (3) average, (4) good, (5) very good, and (6) excellent. The FmHA national office believes that the fair classification is the most appropriate standard to provide modest but adequate quality houses for low- and very low-income borrowers and said that it should be used when estimating the cost of new houses. A house of fair quality is simpler in design and lower in cost compared with houses built under the higher standards. Houses that are above the fair standard typically have features that increase costs, such as steeper roof lines, greater roof overhang, more windows, roof gables, larger porches, and window shutters.

Figure 3.12: House Built Using Fair Construction Standard



Compared with the house in figure 3.13, which was built to the average standard, this house has a lower roof line, minimal roof overhang, one front entry, a small porch, and fewer windows.

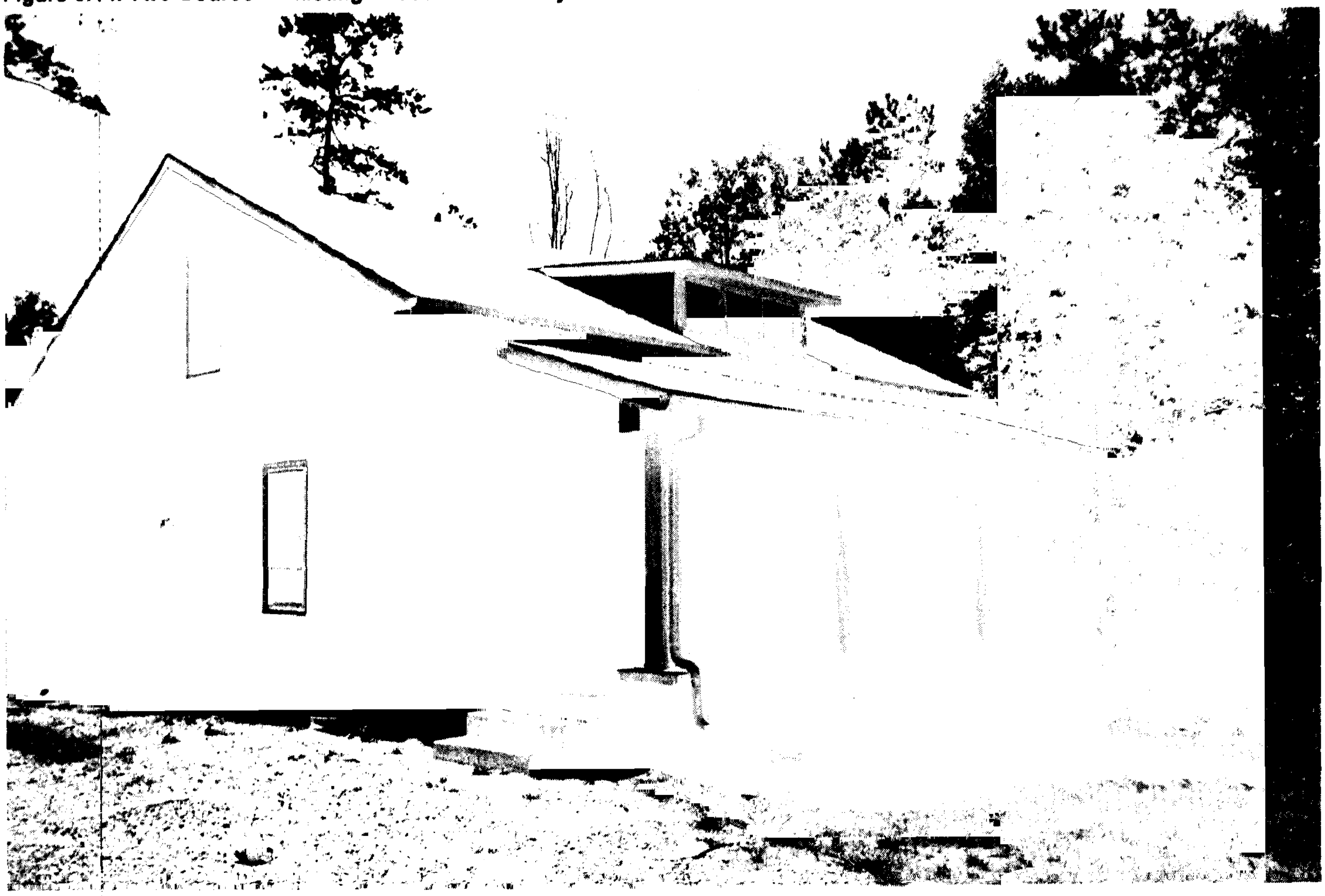
private market existing housing because buyers and sellers objected to the long waiting period for FmHA loan processing. Additionally, 73 percent said that realtors objected to FmHA's excessive processing time. At two locations we visited, realtors indicated they were no longer referring potential homebuyers to FmHA because of the processing delays.

Although one county supervisor was making greater use of private market housing than most others, this was attributed to an unusually large supply of private market houses and not a response to FmHA's recommendations. At 11 of the 15 locations where we were able to obtain data, about 700 existing houses on the private market were priced in the same range or lower than an average FmHA new house being financed.

Using FmHA's average savings of $1,000 nationwide on the purchase of an existing house, we estimated that program costs could be reduced by about $5 million if FmHA increased its use of existing housing 20 percent over the 1984 fiscal year level. This would increase the share of existing houses financed to about 56 percent, which is closer to the 77 percent being financed in private rural housing markets.

Figure 3.14 shows a house one county office financed from the private market in 1984. The office financed this two-bedroom existing house for $27,500, or about $9,400 less than the average new house being financed at the same location. During 1984 this office financed six existing houses at an average savings of about $5,000 compared with the price of similarly sized new houses.

Figure 3.14: Two-Bedroom Existing House Financed by FmHA



Conclusions

FmHA has identified many potentially effective cost reduction methods. However, these measures have not been implemented. Over the years FmHA has made several attempts to reduce housing costs while striving to provide acceptable housing to FmHA borrowers. A 1983 congressional requirement to increase assistance to very low-income households renewed emphasis on cost reduction and led FmHA, in 1984, to consider additional ways to make houses more affordable. This included down-sizing houses, eliminating extra features, financing more alternative housing such as duplexes and townhouses, and financing more existing units.

Agency Comments and Our Evaluation

In commenting on a draft of our report (see app. VI), Agriculture agreed with our recommendations and stated that it is taking action in response to them. Concerning our recommendations to consider reducing costs through a variety of measures, Agriculture said that it has drafted an administrative notice with guidance on reducing house size and amenities, and establishing occupancy requirements. Agriculture said the administrative notice will enhance requirements previously set forth in FmHA AN 966 (1944) dated January 26, 1984, for improving targeting and reducing costs.

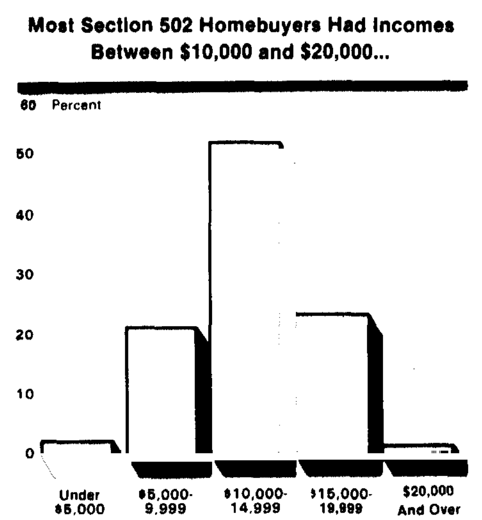
Agriculture also said that it has established a task force on cost containment representing a cross section of both FmHA and the private sector. It plans to have a meeting of the task force in early December 1985 to secure recommendations on cost containment in (1) building costs, (2) site, (3) site improvements, and (4) other areas. Agriculture said it is then planning to proceed to develop criteria in the regulations to give direction to the field.

Concerning our recommendation to finance houses built to fair quality, Agriculture said that it generally expects a house not to exceed fair quality. It said training on this subject would be a part of nationwide rural housing training sessions in November 1985.

groups to determine how section 502 homebuyers compare with all homebuyers in 1983.

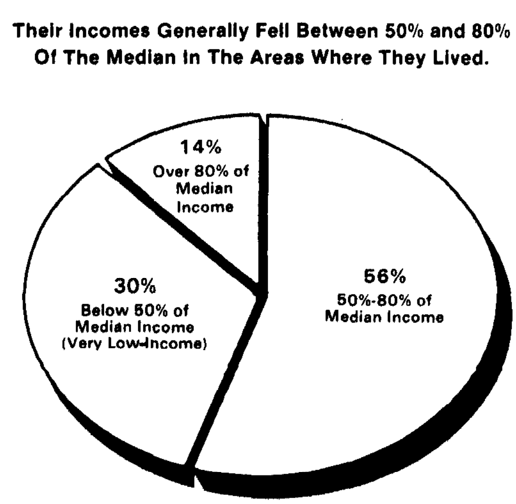
Figures 4.1 and 4.2 show demographic and financial characteristics for all section 502 beneficiaries who received their loans in 1984. Figure 4.4 shows the percentage of section 502 homebuyers below the poverty level. Figures 4.3, 4.5, and 4.6 compare section 502 beneficiaries with all low-income rural households. Chapter 3 discusses in detail the characteristics of the housing section 502 homebuyers purchased and shows several photographs of typical houses financed by FmHA in 1983 and 1984.

Figure 4.2: Financial Characteristics (Fiscal Year 1984)



And Modest Assets.

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



Source: FmHA.

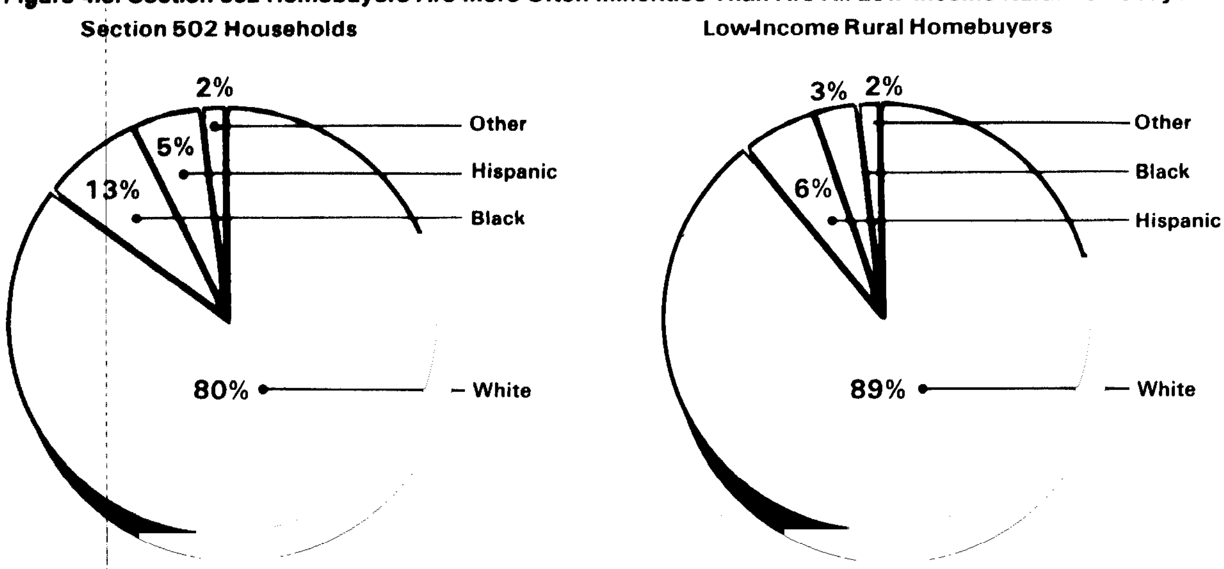
Many Section 502 Households Are Below Poverty Level

Of the section 502 beneficiaries we analyzed for fiscal year 1984, 23 percent had incomes below the 1984 poverty threshold as defined by the Bureau of the Census, Department of Commerce. Smaller households were less likely to fall below the poverty level than larger households. Nine percent of the one- and two-person section 502 households had incomes below the poverty level, while 48 percent of the households with four or more persons lived below the poverty threshold. Figure 4.4 illustrates the percentage of households below the poverty level for each household size.

One-Fifth of Section 502 Homebuyers Are Minorities

The proportion of section 502 minority homebuyers (20 percent) was nearly twice the proportion of all low-income rural minority homebuyers (11 percent). Specifically, 13 percent of the section 502 homebuyers were black, compared with 6 percent for all low-income homebuyers. Hispanics made up 5 percent of the section 502 homebuyers and 3 percent of all low-income rural homebuyers. Figure 4.5 compares the racial composition of the section 502 homebuyers and all low-income rural homebuyers.

Figure 4.5: Section 502 Homebuyers Are More Often Minorities Than Are All Low-Income Rural Homebuyers



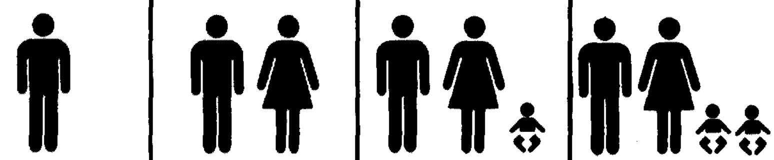
Source: GAO calculations based on FmHA data, fiscal year 1984 and Annual Housing Survey data, 1983.

Section 502 Homebuyers Are Younger

Section 502 household heads average 6 years younger than the household heads of all low-income rural homebuyers. The section 502 buyers are younger, with an average age of 32 years, compared with 38 years for all low-income rural homebuyers. Over 70 percent of the heads of section 502 households are under 35 years old, while about 50 percent of the heads of all low-income rural households are over 35 years old. Figure 4.6 shows this comparison.

Figure 4.7: Section 502 Households Are Slightly Larger Than the Households of All Low-Income Rural Homebuyers

Persons in Household



	One	Two	Three	Four or More
Section 502 Households	17%	24%	27%	33%
Low-Income Rural Homebuyers	17%	30%	19%	34%

Source: GAO calculations based on FmHA data, fiscal year 1984 and Annual Housing Survey data, 1983.

Section 502 Homebuyers Purchased a Greater Proportion of Three-Bedroom Houses and New Houses

Although section 502 homebuyers and all low-income rural homebuyers each had 2.97 persons per household, section 502 homebuyers purchased houses with more bedrooms. Section 502 homebuyers purchased houses that averaged 2.88 bedrooms compared with 2.44 bedrooms in houses purchased by all low-income rural homebuyers. Section 502 homebuyers purchased a greater percentage of three-bedroom houses (83 percent) than did all low-income rural homebuyers (39 percent). In addition, only 14 percent of the section 502 homebuyers purchased one- and two-bedroom houses compared with 54 percent for all low-income rural homebuyers.

Over half (53 percent) of the houses financed under the section 502 program were built or purchased new, while less than one quarter (23 percent) of the homes purchased by all low-income rural homebuyers were new. Figure 4.8 illustrates the distribution of new and existing houses and compares the number of bedrooms in the houses purchased by the two groups.

Examples of Beneficiaries and Housing Purchased

This chapter provides overall data on section 502 beneficiaries such as average age, median income, and average household size as well as overall statistics on the housing they purchased. However, individual beneficiaries and the housing they purchased vary widely from the overall data. The following are some examples of actual beneficiaries and the housing they purchased at the county offices we visited. These examples illustrate the variety of beneficiaries assisted and housing provided under the program.

- A retired couple, ages 64 and 61, with an income of $15,150, received a $37,500 loan to purchase a three-bedroom, 1-1/2 bath house, with 1,063 square feet of living area and a total area of 1,356 square feet, which included a carport. Their monthly FmHA housing payment was $210, and the government subsidy was $137 per month.
- A married couple, ages 28 and 27, with two children and an income of $12,480, obtained a loan for $38,000 to buy a new three-bedroom house. The house had 1,056 square feet of living area and 1,768 square feet of total area and included a garage, partial basement, and 1-1/2 baths. The borrower's monthly payment was $162 and the government subsidy was $189 per month.
- A 22-year-old single male with an income of $10,990 received a $50,000 loan to purchase a one-bedroom house. The living area was 1,186 square feet and the total area was 1,986 square feet. The house had a basement, wood deck, and an unfinished second floor. The borrower's monthly mortgage payment was $151 and the government subsidy was $313 per month.
- A 29-year-old single male who had an income of $16,650 received a loan to purchase a house in Hawaii costing $85,000. He made a downpayment of $20,000 because the maximum FmHA loan amount in that county office was $65,000. The house had three bedrooms and 1,016 square feet of living area. The borrower's monthly payment was $264 and the government subsidy was $428 per month.
- A county office we visited in Hawaii made 76 loans in fiscal year 1984, including 32 loans (42 percent) to single persons. Houses financed by the county office typically cost between $70,000 and $80,000, which exceeded the $65,000 loan limit. As a result, borrowers had to make downpayments averaging $10,500 and ranging as high as $20,000. The government subsidies were generally $400 or more per month.
- A 36-year-old divorced female with two children and an income of $11,180 received a loan to purchase a three-bedroom brick house costing $37,500, with 1-1/2 baths and central heating and air-conditioning. The house had a total area of 1,209 square feet with a living area of 1,132

Table 4.1: Locations of FmHA Houses Financed in Fiscal Year 1984

Location	Percentage
Farm	[a]
Open country	32
Other locations with populations of	
2,500 or less	25
2,501 to 5,000	16
5,001 to 10,000	18
10,001 to 20,000	9
Total	**100**

[a]Less than 1 percent.

Source: FmHA data, fiscal year 1984.

Location (county)	Adjusted family income	Current house price[a]	Current monthly payment[b]	Reduced house price[c]	New monthly payment[b]	Change in monthly payment	Reduction in monthly govt. subsidy[i]
Pulaski, Ark.	$12,350[d]	$40,500	$206	$34,425	$206	$0	$67
	11,100[e]	40,500	185	34,425	185	0	67
	9,900[f]	40,500	165	34,425	165	0	67
	8,650[g]	40,500	163	34,425	144	19	52
Westmoreland, Pa.	13,550[d]	45,000	226	38,250	226	0	75
	12,200[e]	45,000	203	38,250	203	0	75
	10,850[f]	45,000	182	38,250	181	1	74
	9,500[g]	45,000	182	38,250	158	24	51
Johnson, Wyo.	13,100[d]	46,500	218	39,525	218	0	78
	11,800[e]	46,500	197	39,525	197	0	78
	10,500[f]	46,500	188	39,525	175	13	65
	9,150[g]	46,500	188	39,525	159	29	49
Sheridan, Wyo.	14,150[d]	46,500	236	39,525	236	0	78
	12,750[e]	46,500	213	39,525	213	0	78
	11,300[f]	46,500	188	39,525	188	0	78
	9,900[g]	46,500	188	39,525	165	23	55
Parker, Tex.	14,900[d]	35,500	248	30,175	248	0	60
	13,400[e]	35,500	223	30,175	223	0	60
	11,900[f]	35,500	198	30,175	198	0	60
	10,450[g]	35,500	174	30,175	174	0	60
Palo Pinto, Tex.	11,050[d]	35,500	184	30,175	184	0	60
	9,950[e]	35,500	166	30,175	166	0	60
	8,850[f]	35,500	148	30,175	148	0	60
	7,750[g]	35,500	143	30,175	129	14	46
Cumberland, Maine	12,000[d]	49,000	200	41,650	200	0	82
	10,800[e]	49,000	198	41,650	180	18	64
	9,600[f]	49,000	198	41,650	168	30	52
	8,400[g]	49,000	198	41,650	168	30	52
Sagadahoc, Maine	11,150[d]	49,000	198	41,650	186	12	70
	10,050[e]	49,000	198	41,650	168	30	52
	8,900[f]	49,000	198	41,650	168	30	52
	7,800[g]	49,000	198	41,650	168	30	52
Eldorado, Calif.	13,200[d]	52,000	220	44,200	220	0	87
	11,900[e]	52,000	209	44,200	198	11	76
	10,550[f]	52,000	209	44,200	178	31	56
	9,250[g]	52,000	209	44,200	178	31	56

1984 Targeting Results by State[a]

Incomes based on percent

State	Incomes exceeded 80 percent of area median	Low income—incomes did not exceed 80 percent of area median	Very low income[b]—incomes did not exceed 50 percent of area median
Alabama	9.5	90.5	40.0
Alaska	34.5	65.5	19.8
Arizona	35.7	64.3	14.2
Arkansas	13.2	86.7	28.5
California	17.3	82.7	21.7
Colorado	12.7	87.3	28.6
Connecticut	9.2	90.8	34.9
Delaware	10.1	89.9	19.1
Florida	21.4	78.6	24.1
Georgia	16.6	83.4	27.2
Hawaii	11.4	88.6	29.3
Idaho	23.3	76.7	19.1
Illinois	11.7	88.3	29.7
Indiana	11.0	89.0	27.9
Iowa	13.2	86.8	25.5
Kansas	16.4	83.6	27.4
Kentucky	14.2	85.8	30.4
Louisiana	6.3	93.7	38.3
Maine	24.3	75.7	21.5
Maryland	10.6	89.4	25.0
Massachusetts	11.6	88.3	32.2
Michigan	15.5	84.5	28.1
Minnesota	14.0	86.0	26.5
Mississippi	6.8	93.2	47.8
Missouri	11.9	88.1	25.2
Montana	19.6	80.4	19.1
Nebraska	14.1	85.9	22.2
Nevada	33.3	66.7	20.5
New Hampshire	24.3	75.7	13.2
New Jersey	11.5	88.5	19.9
New Mexico	10.3	89.7	31.8
New York	23.0	77.0	20.0
North Carolina	22.4	77.6	18.2
North Dakota	9.9	90.1	28.6
Ohio	10.4	89.6	30.7

Percentage of Very Low-Income Loans by State for 1983 And 1984

State	Percentage of very low-income loans 1983	1984	Increased from 1983 to 1984	Decreased from 1983 to 1984
Alabama	35.6	40.0	X	•
Alaska	15.6	19.8	X	•
Arizona	21.2	14.2	•	X
Arkansas	24.2	28.5	X	•
California	15.8	21.7	X	•
Colorado	23.8	28.6	X	•
Connecticut	24.8	34.9	X	•
Delaware	9.2	19.1	X	•
Florida	14.2	24.1	X	•
Georgia	18.2	27.2	X	•
Hawaii	18.3	29.3	X	•
Idaho	21.9	19.1	•	X
Illinois	23.7	29.7	X	•
Indiana	25.0	27.9	X	•
Iowa	17.9	25.5	X	•
Kansas	17.6	27.4	X	•
Kentucky	22.5	30.4	X	•
Louisiana	42.1	38.3	•	X
Maine	11.6	21.5	X	•
Maryland	16.7	25.0	X	•
Massachusetts	22.8	32.2	X	•
Michigan	21.5	28.1	X	•
Minnesota	17.3	26.5	X	•
Mississippi	44.8	47.8	X	•
Missouri	21.6	25.2	X	•
Montana	18.6	19.1	X	•
Nebraska	13.3	22.2	X	•
Nevada	18.7	20.5	X	•
New Hampshire	10.9	13.2	X	•
New Jersey	14.6	19.9	X	•
New Mexico	22.2	31.8	X	•
New York	17.3	20.0	X	•
North Carolina	16.3	18.2	X	•
North Dakota	15.1	28.6	X	•
Ohio	25.0	30.7	X	•
Oklahoma	32.1	38.6	X	•
Oregon	18.3	23.5	X	•
Pennsylvania	15.5	17.6	X	•
Rhode Island	14.8	25.0	X	•

Number of Very Low-Income Loans by State for 1983 and 1984

State	Number of very low-income loans 1983	1984	Increased from 1983 to 1984	Decreased from 1983 to 1984
Alabama	433	512	X	•
Alaska	31	34	X	•
Arizona	96	68	•	X
Arkansas	411	434	X	•
California	357	482	X	•
Colorado	118	124	X	•
Connecticut	133	132	•	X
Delaware	12	20	X	•
Florida	216	288	X	•
Georgia	319	299	•	X
Hawaii	50	73	X	•
Idaho	123	99	•	X
Illinois	459	453	•	X
Indiana	470	430	•	X
Iowa	262	232	•	X
Kansas	97	112	X	•
Kentucky	530	507	•	X
Louisiana	860	639	•	X
Maine	174	276	X	•
Maryland	110	125	X	•
Massachusetts	181	144	•	X
Michigan	487	652	X	•
Minnesota	152	169	X	•
Mississippi	1,640	3,203	X	•
Missouri	466	371	•	X
Montana	89	79	•	X
Nebraska	68	78	X	•
Nevada	24	18	•	X
New Hampshire	83	80	•	X
New Jersey	140	134	•	X
New Mexico	129	205	X	•
New York	218	191	•	X
North Carolina	658	493	-	X
North Dakota	104	121	X	•
Ohio	361	467	X	•
Oklahoma	442	406	•	X

Average Price and Size of FmHA New Houses by State for Fiscal Year 1984

State	Average price	(Square feet) Average living area	Average total area
Alabama	$32,180	1,089	1,301
Alaska	79,346	1,051	1,373
Arizona	46,500	1,200	1,504
Arkansas	36,676	1,118	1,447
California	48,824	1,076	1,368
Colorado	42,702	1,042	1,370
Connecticut	53,028	1,058	1,898
Delaware	38,954	1,071	1,071
Florida	35,897	1,055	1,338
Georgia	36,270	1,086	1,392
Hawaii	69,311	938	1,052
Idaho	44,871	1,068	1,176
Illinois	42,458	1,049	1,413
Indiana	45,206	1,059	1,267
Iowa	47,227	1,013	1,460
Kansas	39,656	1,055	1,529
Kentucky	38,162	1,074	1,305
Louisiana	44,819	1,123	1,420
Maine	47,662	991	1,757
Maryland	45,267	1,028	1,263
Massachusetts	49,119	1,046	1,916
Michigan	45,224	1,058	1,546
Minnesota	45,883	937	1,712
Mississippi	37,664	1,130	1,513
Missouri	38,464	1,066	1,708
Montana	43,390	1,070	1,545
Nebraska	50,287	1,025	1,691
Nevada	49,014	1,089	1,374
New Hampshire	50,572	1,047	1,852
New Jersey	46,692	1,122	1,182
New Mexico	41,120	1,039	1,245
New York	42,388	1,104	1,711
North Carolina	37,958	1,049	1,396
North Dakota	48,148	1,040	2,008
Ohio	44,254	1,027	1,436
Oklahoma	38,982	1,098	1,360
Oregon	50,917	1,051	1,392
Pennsylvania	45,490	1,074	1,970
Rhode Island	52,381	1,107	1,901
South Carolina	37,559	1,066	1,241

Advance Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of Agriculture | Farmers Home Administration | Washington D.C. 20250

30 OCT 1985

SUBJECT: GAO DRAFT REPORT "OPPORTUNITIES TO REDUCE HOUSING COSTS AND IMPROVE TARGETING OF FUNDS TO NEEDY RURAL HOUSEHOLDS UNDER THE FARMERS HOME ADMINISTRATION SECTION 502 HOUSING LOAN PROGRAM" (RCED -86-33)

TO: J. Dexter Peach, Director
Resources, Community and Economic Development Division

We have reviewed subject report and offer the following response to GAO's recommendations to the Secretary of Agriculture. Some recommendations were grouped together thereby resulting in some responses being the same.

1. GAO RECOMMENDATION

--Implement regulations to comply with the law to extend the mortgage term from 33 to 38 years and finance manufactured/mobile homes

FmHA RESPONSE

o Extend term- The Housing Act of 1983 extends the term of the loan if this is necessary to make a feasible loan. FmHA has drafted and is in the process of clearing proposed rule for the FEDERAL REGISTER to increase the maturity of Section 502 loans from not more than 33 years to not more than 38 years. These loans may be made to persons whose income does not exceed 60 per centum of the median income for the area and who would otherwise be denied such loan because the payments required under a shorter period would exceed the financial capacity of such person. This action will result in a change in FmHA Instruction 1944-A. This does not extend to manufactured/mobile homes.

o Manufactured/Mobile Homes - The proposed rule implementing the financing of mobile manufactured homes by Farmers Home Administration was drafted and was sent to OMB on May 17, 1985. This action is proposed as Exhibit F of 1944-A.

2. GAO RECOMMENDATION

--consider a variety of measures that could be taken to target more housing assistance to very low-income people in rural areas. These include (1) establishing targeting performance goals for county offices, (2) pursuing a more aggressive outreach program to identify very low-income households and those living in substandard housing, and (3) following up on county office efforts to target assistance to very low-income households and those living in substandard housing.

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