

CRS Report for Congress

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Rural Housing: USDA Disaster Relief Provisions

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Summary

When disasters occur, such as Hurricane Katrina, the U.S. Department of Agriculture (USDA) provides housing relief to residents of the affected areas in general and to affected participants in the various USDA rural housing programs. This report provides an overview of those housing relief efforts. Assistance can be placed in three broad categories: (1) relief for homeowners and homebuyers; (2) relief for apartment dwellers; and (3) relief for multi-family property owners.

For Section 521 rental assistance allocated to housing made uninhabitable by Hurricane Katrina or Hurricane Rita, H.R. 3895, as passed by the House on October 6, 2005, would amend the Housing Act of 1949 to permit the conversion of the rental assistance into either Section 8 vouchers or rural housing vouchers. The bill would amend the law to permit Section 502 guarantee loans to be used for the repair or rehabilitation of existing properties.

This report will be updated as suggested by regulatory or legislative changes.

Title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.), as amended, authorizes the U.S. Department of Agriculture (USDA) to administer several programs which provide housing opportunities to residents of rural areas. The programs are administered by the Rural Housing Service (RHS) and the programs are generally referred to by the section number under which they are authorized in the Housing Act of 1949.

When disasters occur, such as Hurricane Katrina, the USDA provides housing relief to residents of the affected areas in general and to affected participants in the various USDA rural housing programs. The relief can be placed in three broad categories: (1) relief for homeowners and homebuyers; (2) relief for apartment dwellers; (3) relief for multi-family property owners. In general, USDA assistance is only available if funds from the Federal Emergency Management Agency (FEMA), the Small Business Administration, other agencies, or insurers are inadequate to meet the housing needs of affected rural residents.

Relief for Homeowners and Homebuyers

USDA has authority to finance the purchase or repair of single-family housing under Sections 502 and 504 of the Housing Act of 1949.

Section 502. Under the Section 502 program, qualified applicants may obtain loans for the purchase or repair of new or existing single-family housing in rural areas. Borrowers may either obtain direct loans from USDA or obtain loans from private lenders which are guaranteed by USDA.

Borrowers with income of 80% or less of the area median may be eligible for the direct Section 502 loans and may receive interest credit to reduce the interest rate to as low as 1%. The direct loans may be used to purchase existing homes, to repair homes that are already owned, or to construct new homes. Borrowers with income of up to 115% of the area median may obtain USDA-guaranteed loans from private lenders. Guaranteed Section 502 loans may only be used to purchase existing dwellings or to construct new homes. Priority is given to first-time homebuyers, and USDA may require that borrowers complete a homeownership counseling program.

Historically, about 98% of the loans have been used for home purchases. The homes to be financed must be “modest” in cost and design and must be located in rural areas serviced by the USDA. To be eligible for a Section 502 loan, a borrower must have the means to repay the loan but be unable to secure reasonable credit terms elsewhere.

After a presidentially-declared disaster, borrowers are eligible for a six-month moratorium on mortgage payments if they live in the disaster area and have direct Section 502 loans from the USDA. If necessary, the moratorium may be extended, but the moratorium may not exceed two years. Interest will continue to accrue on the unpaid loan balance during the moratorium. Upon resumption of scheduled payments the loan is to be re-amortized to include the amount deferred. After adjusting for any interest rate subsidy available to the borrower, all or part of the interest accrued during the moratorium may be forgiven to the extent that the new mortgage payment would exceed the borrower’s ability to pay.

Borrowers whose homes have been damaged by the disaster may also be eligible for new Section 502 loans to pay for needed repairs.

The USDA has no direct control over the actions of lenders that participate in its housing programs. In cases of presidentially-declared disasters, the USDA sends a letter to lenders who hold USDA-guaranteed Section 502 loans, and asks that such lenders cease foreclosures and offer payment forbearance to Section 502 borrowers who live in the disaster areas.

Section 504. Under the Section 504 program, rural homeowners with incomes of 50% or less of the area median may qualify for USDA direct loans to repair their homes. The proceeds must be used to remove identified health and safety hazards or to remodel the dwellings to make them accessible and useable for household members with disabilities. Loans are limited to \$20,000. Owners who are age 62 or more may qualify for grants of up to \$7,500 to pay for the needed home repairs. To qualify for the grants, the elderly homeowners must lack the ability to repay the full cost of the repairs.

Depending on the cost of the repairs and the income of the elderly homeowner, the owner may be eligible for a grant for the full cost of the repairs or for some combination of a loan and a grant which covers the repair costs. The combination loan and grant may total no more than \$27,500.

As with the Section 502 program, borrowers with Section 504 loans are eligible for a six-month payment moratorium if the mortgaged property is within a presidentially-declared disaster area. The loans are reamortized upon resumption of mortgage payments. Borrowers may also be eligible for new Section 504 loans to pay for damage caused by the disaster.

Rental Housing Preference as Displaced Tenants. Homeowners who are made homeless as a result of a presidentially-declared disaster, and who are borrowers under the Section 502 program (either direct or guaranteed) or the Section 504 program (either loans or grants), are eligible for occupancy nationwide as “displaced tenants” at any USDA-financed multi-family housing projects. They are given a letter of priority eligibility (LOPE), which moves them to the top of waiting lists for vacancies in other properties. The LOPE is good for 120 days. After 120 days the family may remain on the waiting list but without priority. An expedited placement process waives maximum income limits, security deposits, and credit checks; streamlines month-to-month leasing procedures; and institutes telephone background checks.

Relief for Apartment Renters

USDA has authority to finance multi-family housing under Sections 514, 515, 516, and 538 of the Housing Act of 1949. Section 521 of the act provides authority to offer rental assistance to low-income renters who reside in USDA-financed rental housing.

Section 515. Under the Section 515 program, USDA is authorized to make direct loans for the construction of rural rental and cooperative housing. Except for public agencies, all borrowers must demonstrate that financial assistance from other sources will not enable the borrower to provide the housing at terms that are affordable to the target population. The funds may also be used to buy and improve land and to provide necessary facilities such as water and waste disposal systems.

Section 514 and Section 516. Under the Section 514 program, USDA is authorized to make direct loans for the construction of housing and related facilities for farm workers. The loans are repayable in 33 years and bear an interest rate of 1%. Except for state and local public agencies or political subdivisions, the applicants must be unable to obtain financing from other sources that would enable the housing to be affordable by the target population. Under the Section 516 program, USDA is authorized to make grants of up to 90% of the development cost to nonprofit organizations and public bodies seeking to construct housing and related facilities for farm workers. Applicants must demonstrate a “pressing need” in the area for the housing and show there is reasonable doubt that it can be provided without the grant. The remaining 10% of the cost may be from the applicant’s own resources, from other sources, or from Section 514 loans.

Section 521. Under the Section 521 program, the USDA is authorized to make rental assistance payments to owners of rental housing (Sections 515 or 514) to enable eligible tenants to pay no more than 25% of their income in rent. The rental assistance

payments, which are to be made directly to the property owners, are to make up the difference between the tenants' payments and the USDA-approved rent for the units. Owners must agree to operate the property on a limited profit or nonprofit basis.

For residents receiving Section 521 rental assistance in units made uninhabitable by a presidentially-declared disaster, USDA permits the transfer of the rental assistance to another eligible Section 514 or Section 515 apartment complex. The transfer must be agreed to by all parties and be designed for the return of the residents and the rental assistance to the original complex and unit after the property has been restored. If the tenant chooses to stay instead of returning to the original complex, the tenant will not be assured rental assistance, and the owner would charge an appropriate rent based on any subsidy available to that property.

Section 538. Under the Section 538 program, borrowers may obtain loans from private lenders to finance multifamily housing, and USDA guarantees to pay for the lender losses in case of borrower default. Section 538 guaranteed loans may be used for the development costs of housing and related facilities that (1) consist of five or more adequate dwelling units, (2) are available for occupancy only by renters whose income at time of occupancy does not exceed 115% of the median income of the area, (3) would remain available to such persons for the period of the loan, and (4) are located in a rural area.

Rental Housing Preference as Displaced Tenants. Residents of Section 515 Section 514, Section 516 and Section 538 housing, who are made homeless as a result of a presidentially-declared disaster, are eligible for occupancy nationwide as "displaced tenants" at any USDA-financed multi-family housing projects. They are to be given a letter of priority eligibility (LOPE), which moves them to the top of waiting lists for vacancies in other properties. The LOPE letter is good for 120 days. After 120 days the family may remain on the waiting list but without priority. Documentation of being registered with FEMA may be used in lieu of a LOPE letter. An expedited placement process waives maximum income limits, security deposits, and credit checks; streamlines month-to-month leasing procedures; and institutes telephone background checks.

Relief for Multi-Family Property Owners

Owners of Section 514 and Section 515 properties in disaster areas are to be given a 90-day moratorium on mortgage payments. Applicants must meet two conditions to qualify: (1) have properties in the areas designated as disasters, and (2) provide verification that the damage to the property was a direct result of the disaster. At the end of the moratorium the loan may be reamortized, the loan may be refinanced, or USDA may enter a work-out plan with the borrowers.

The USDA is to send letters to lenders holding Section 538 loans, suggesting that the lenders offer similar forbearance to Section 538 borrowers in disaster areas.

Legislation in the 109th Congress

The Rural Housing Hurricane Relief Act of 2005 (H.R. 3895), as passed by the House on October 6, 2005, would amend the Housing Act of 1949 to provide rural housing assistance to families affected by Hurricane Katrina or Hurricane Rita.

Section 541 of the National Housing Act provides that, in cases of presidentially-declared disasters, the USDA must allocate disaster assistance to affected states for use in counties designated as disaster areas and to counties contiguous to such counties. Allocations may be made over three fiscal years beginning on the date of the declaration. In general the funds may be used for any of USDA's authorized housing purposes. Local governments, their agencies, and nonprofit organizations may use the funds for the construction or rehabilitation of housing for agricultural workers.

As passed, H.R. 3895 would amend Section 541 such that it only applied to counties designated as disaster areas in connection with Hurricane Katrina or Hurricane Rita, counties contiguous to such counties, and individuals residing in these counties at the time of the disaster. For Section 514 or Section 515 properties in these areas that had been allocated Section 521 rental assistance, and which had become uninhabitable because of the disaster, the USDA would have the option of converting the Section 521 rental assistance into either Section 8 vouchers or rural housing vouchers. Affected tenants would be able to use the vouchers to pay towards the cost of renting substitute housing. The USDA would be permitted to use the vouchers in areas that do not meet the definition of "rural."

The bill would amend the rural housing voucher program (Section 542) by no longer limiting its use to very- low-income families, and permit its use by certain low-income families. Eligible low-income families would be those who reside or resided in areas that were subject to Presidential disaster declarations in connection with Hurricane Katrina or Hurricane Rita, and whose residences became uninhabitable or inaccessible as a result of these disasters. The limit of 5,000 rural housing vouchers in a fiscal year would not apply to vouchers authorized under these provisions.

The authority for the amended Sections 541 and 542 would apply during the six-month period beginning on the date of enactment of H.R. 3895.

As noted above, under present law Section 502 guaranteed loans may only be used for purchasing existing dwellings or constructing new homes. The bill would amend the law to provide that guaranteed loans may also be used to repair or rehabilitate existing properties in rural areas.