

## HOUSING AFFORDABILITY IN RURAL AMERICA

This paper argues that RCAP is positioned to expand the scope of national discussion about "housing affordability" beyond traditional analysis related to its initial availability. Other voices bring these themes to public attention and RCAP supports their chorus, primarily through our affiliations (see Appendix). We also operate housing programs in four of the six regional RCAPs. Until recently, however, the RCAP network has not made public statements about housing issues. During our 2005 policy conference in Washington, DC, we began to question that position. We believe the RCAP network has an opportunity to speak with a unique and sorely needed voice. Our contribution arises from the breadth and depth of our involvement in rural communities.

This paper first describes traditional rural housing affordability problems being cited by housing organizations. It goes on to describe how, from our experience in the broader field of rural development and decline, RCAP can hold up generally unsung, serious dimensions affecting the affordability of rural housing in America.

### BACKGROUND

#### Trends

In 1900, the national census showed that approximately two-thirds of Americans lived in rural areas.<sup>1</sup> In the new millennium, residents in rural areas have declined to 20 percent of the nation's population. Along with this population decline, rural areas have suffered economically. "U.S. national prosperity in the 1990s did not extend to many of its rural areas. Poverty remained high in many rural (nonmetro) counties and roughly a quarter lost population over the decade. For about half of the counties losing population, the loss exceeded 5 percent."<sup>2</sup> Poverty is particularly acute among minorities, female-headed households, and children.<sup>3</sup>

"The US Census originated a term 'Frontier County' to apply to counties with under 2 persons per square mile. Except for a few counties along Lake Superior and in some of the more mountainous regions, the eastern half of the U.S. has few frontier counties. In contrast, the Great Plains and Rocky Mountain areas in the center-West of the country are composed largely of this type of county."<sup>4</sup>

"We identify remote (from metro areas), thinly settled counties as 'frontier' counties, arguing that the lack of access to services and the small labor market sizes in these counties inhibits the immigration of people and businesses, particularly in the absence of compensating natural amenities.... Most of the [frontier] counties are farming-dependent, less because of their abundance of agriculture than because of their dearth of other economic activities.... Many of these counties have been losing population for decades, with no solution in sight. Three [key] characteristics of counties that lost population in 1990-2000 [are]: location away from metro areas, low population density, and a low level of natural amenities (as measured by climate, topography, and the presence of lakes and ponds)."<sup>5</sup> "Thus, it is the counties with the fewest

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<sup>1</sup> Housing Assistance Council, *Housing in Rural America*, March, 2006

<sup>2</sup> McGranahan, David A. & Beale, Calvin L.: *Understanding Rural Population Loss*, USDA, ERA, **RURAL AMERICA**, 2003, Vol. 17, pg. 11

<sup>3</sup> U.S. Census Bureau, *Historical Poverty Tables: Poverty of People by Residence 1959 to 2004*. Current Population Survey

<sup>4</sup> McGranahan, David A. & Beale, Calvin L.: *Understanding Rural Population Loss*, USDA, ERA, **RURAL AMERICA**, 2003, Vol 17, pg 4-5

<sup>5</sup> *ibid*, pg. 4

people that have been most likely to lose population, putting further strain on services in counties least able to bear it.”<sup>6</sup>

With declining populations, and where the remaining population is older, the base for infrastructure improvements is contracted and the available economic resources are diminished. These pressures exacerbate the difficulty of providing safe, *affordable* housing. According to the 2003 American Housing Survey (AHS) indicators of housing adequacy, 1.5 million rural homes, or 6.6 percent, are considered substandard. In addition, approximately 5.2 million rural households, or just under one-quarter, pay more than 30 percent of their monthly income for housing costs and are considered “cost-burdened.” Most cost-burdened households have low incomes, and a disproportionate number are renters – while they comprise less than one-quarter of all rural households, renters represent 36 percent of the cost-burdened population.<sup>7</sup>

A home is the most valuable asset most Americans will ever own. This is particularly true for low- and moderate-income households. While many rural residents own their homes, the equity they accumulate is likely to be less than that for homes in metropolitan areas because rural houses are generally less expensive. Nationwide, the median value of a home is \$120,000; the median value of rural homes is \$80,000.<sup>8</sup>

#### Lack of access to capital

Even with lower rural home values, one of the biggest obstacles that rural families face in trying to buy their own home is predatory lending. According to the National Community Reinvestment Coalition, predatory loans are those that 1) charge more in interest and fees than covers the associated risk, 2) contain abusive terms and conditions, 3) do not take into account the borrower’s ability to repay, and/or 4) target women, minorities, and communities of color for higher interest loans.<sup>9</sup>

The Carsey Institute’s Fall 2006 policy brief *Subprime and Predatory Lending in Rural America* observes: “Some researchers who have analyzed predatory lending have characterized it as ‘redlining in reverse.’ The same poor and minority communities that were often denied access to credit are now being flooded with loan products that often strip equity and diminish wealth....Steering borrowers to loans with higher fees and interest rates than they could qualify for is a major component of predatory lending. It has been estimated that as many as half of all sub-prime loan borrowers could in fact qualify for conventional rate mortgages.”<sup>10</sup> “The use of these products appears to be growing in rural areas, where there are fewer commercial financial banking firms serving rural borrowers than in urban centers. Lacking access to financial alternatives, rural residents are susceptible to a range of predatory financial institutions and products that charge excessive fees and diminish their ability to save and build wealth.” “In almost 500 rural counties, nearly all of them in central and southern regions, one-third or more of the total mortgage originations were for High APR Loans (HALs). These higher rates of high APR loans occur overwhelmingly in Persistent Poverty Counties...those counties that have had

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<sup>6</sup> *ibid*, pg. 4

<sup>7</sup> Source: 2003 American Housing Survey

<sup>8</sup> Housing Assistance Council. *Taking Stock: Rural People, Poverty and Housing at the turn of the 21st Century*. Washington DC 2002

<sup>9</sup> Berenbaum, David, The National Community Reinvestment Coalition. *The Myths of Subprime Lending, Rural Voices*, Spring 2002, pg. 7

<sup>10</sup> Singleton, George, Dickstein, Tohmas, Carsey Institute, University of New Hampshire, *Subprime and Predatory Lending in Rural America: Mortgage lending practices that can trap low-income rural people*, Policy Brief No. 4, Fall, 2006, pg. 3

poverty rates of 20 percent or more for the last three decades.”<sup>11</sup> Manufactured housing is a specific example of affordable housing that is frequently subject to predatory lending practices.

The federal housing effort has evolved into a complex series of programs. Housing programs that reach rural communities are administered through HUD, USDA’s Rural Housing Service, the Internal Revenue Service, and others. HUD is the dominant source of federal funding for low- and moderate-income housing. USDA programs, which target rural housing needs, receive inadequate funding.<sup>12</sup> Of course, the federal government’s largest housing “program” is the mortgage interest income tax deduction. For a number of reasons, the deductions primarily benefit middle- and upper-income households.

The budgets of many federal housing programs have been cut drastically in recent years. A prime example is the USDA Section 515 Rural Rental Housing program. In federal fiscal year (FY) 1994, the program funded the development of 11,542 units of affordable rental housing in rural areas, but by FY 2005 only 783 units were developed under the program, reflecting a 93 percent reduction in production.<sup>13</sup>

### **AFFORDABILITY ISSUES – RCAP’S EXPERIENCE**

Not only is the purchase price of housing escalating out of reach in rural areas that are under pressure from urban development, the operating expenses of associated community infrastructure – such as water and wastewater – are being driven up as well, with adverse effects on health, welfare (defined in many forms), and communities’ ability to attract new economic opportunities.

#### Operating costs

In our day-to-day work in rural America, RCAP sees pressures on community infrastructure, health and safety that (1) result in increased property taxes, (2) encourage land sales for development, and (3) make responses to mandated government water and sewer measures increasingly difficult.

For example, in September 2006 in New Hampshire, residents in one community defeated a referendum to construct a new wastewater facility with cries of “*No mandated upgrades without proper financing availability!*” (Town Meeting, September 9, 2006, Jaffrey, NH), though the community had been out of compliance for ten years and both EPA and the state primacy agency were demanding action. This story is familiar to nearly all RCAP Technical Assistance Providers.

Quite apart from the capital expenses related to upgrades to systems, there are basic absences of needed drinking and clean water services. “According to the 2000 Census, nearly two million people lack indoor plumbing and basic sanitation services, including potable water and sewer. According to the 1999 EPA Safe Drinking Water Needs Survey, \$48 billion would be required over the next 20 years to ensure that communities with populations under 10,000 have safe drinking water. Similarly, EPA’s 2000 Clean Water Needs Survey reported that \$16 billion would be required over 20 years to provide over 19,000 wastewater treatment facilities to

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<sup>11</sup> Ibid, pg. 1

<sup>12</sup> Housing Assistance Council, *Housing in Rural America*, March, 2006

<sup>13</sup> USDA RHS data, as cited by the National Rural Housing Coalition FY 2007 Sign-on Letter, page 1; <http://www.nrhweb.org/appropriation/FY%2007%20Bonilla%20and%20Bennett%20sign%20on%20-%20FINAL.pdf>

communities fewer than 10,000 people. In all, small communities will need to identify some \$64 billion in order to meet their water and wastewater needs.”<sup>14</sup>

In addition to needed basic investment in capital installation, an Environmental Protection Agency (EPA) 2002 report entitled “The Clean Water and Drinking Water Infrastructure Gap Analysis” forecasts shortfalls in availability of funds to meet basic Operations & Maintenance expenses -- projecting the gap as high as \$495 billion by 2019, not counting inflation.<sup>15</sup>

In rural areas with limited manufacturing or other large user/tax-payer businesses, payment for initial drinking and clean water construction, or improvement of existing plant and equipment and the related on-going operating expenses fall largely on the shoulders of household residents. It is critical, we propose, to think of ‘housing affordability’ in wider terms than mere purchase price and mortgage payments.

### Development

In many parts of the country, rural property values are escalating, encouraging farmers to cash in on the large capital asset on which they live. The same pressures tempt manufactured housing park owners to sell their property to land developers for higher value residential and commercial construction. In response, organizations such as the Ford Foundation, CFED (formerly the Corporation for Enterprise Development), and the Opportunity Finance Network are exploring ways in which to assist current residents in parks that are about to be sold to purchase the property through the formation of a cooperative, land trusts, or similar mechanism. Several RCAP regional partners are working on such efforts. For example, RCAP Solutions (the northeast RCAP) with support from Community Resource Group (the southern RCAP), is sponsoring a forum in May 2007 to bring together park residents, community leaders, financial institutions, and other interested stakeholders in an effort to preserve affordable housing at risk of disappearing in a market where it is in short supply.

In May 2006, the Federal Reserve Bank of Boston presented data on the loss of affordable housing in New England.<sup>16</sup> Trends identified in the northeast apply equally to the country as a whole: on a national basis the ratio of median household income to the amount of income needed in order to purchase a median-priced home is negative and is getting worse. (See the table below. National data are presented in the black, solid [no dot] line that appears mid graph.<sup>17</sup>)

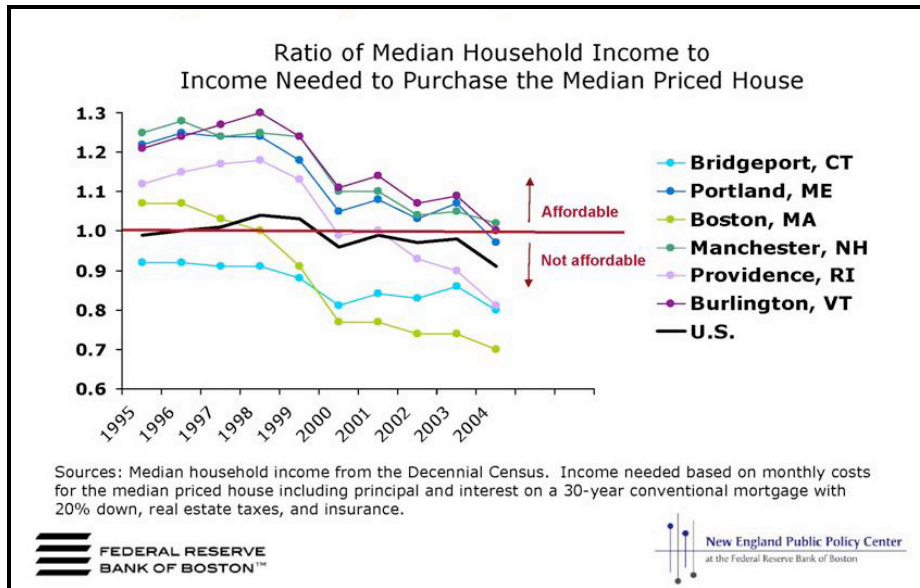
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<sup>14</sup>USDA RHS data, as cited by the National Rural Housing Coalition FY 2007 Sign-on Letter, page 4; <http://www.nrhweb.org/appropriation/FY%2007%20Bonilla%20and%20Bennett%20sign%20on%20-%20FINAL.pdf>

<sup>15</sup> USA EPA, *The Clean Water and Drinking Water Infrastructure Gap Analysis*, Office of Water (4606M)EPA-816-R-02-020, [www.epa.gov/safewater](http://www.epa.gov/safewater), September, 2002, pg. 43

<sup>16</sup> Sasser, Zhao, Rollins, Federal Reserve Bank of Boston, *The Lack of Affordable Housing in New England: How big a problem? Why is it growing? What are we doing about it?* Presentation at “Housing and the Economic Trend, Impacts and Potential Responses”, May 22, 2006.

<sup>17</sup> Ibid, slide # 9.



In the Midwest and West, many family farms have been sold to large agricultural conglomerates. “The advent of agribusiness in the late 20th century has meant fewer but much larger farms. Sometimes owned by absentee stockholders, these corporate farms use more machinery and far fewer farm hands. In 1940, there were 6 million farms averaging 67 hectares each. By the late 1990s, there are only about 2.2 million farms averaging 190 hectares in size. During roughly this same period, farm employment decline dramatically – from 12.5 million in 1930 to 1.2 million in the 1990s. In 1900, half of the labor force was farmers, but in 2003 the figure is less than 2 percent. Today, less than 140,000 American farmers produce most of America’s food and fiber.”<sup>18</sup>

Along with the sale of these farms and migration off the land has come development of housing sprawling from metropolitan locations, but affordable housing has not been part of the surge. Furthermore, demographics in many rural areas, especially those deemed frontier counties, work against a community’s ability to underwrite necessary infrastructure improvements. “Because of previous out-migration and declining birth rates, many rural counties have older populations, and the number of deaths now exceeds the number of births. Nonmetro counties where the populations age 54 and over exceed 20 percent of the total population in 1990 were more likely than other counties to lose population between 1990 and 2000.”<sup>19</sup>

### WHAT CAN RCAP DO?

RCAP is positioned to expand the scope of national discussion about housing affordability as a result of our extensive involvement in the development of rural communities.

#### Advocacy

RCAP can join the voices of affiliate organizations like the Housing Assistance Council, the National Low Income Housing Coalition, the National Rural Housing Coalition and the Rural

<sup>18</sup> <http://tokyo.usembassy.gov/e/jusa/jusa-business-agriculture.html> Abridged from the U.S. State Department IIP Publications and other U.S. government materials

<sup>19</sup> McGranahan & Beale, “Understanding Rural Population Loss”, **Rural America**, 2003, Vol. 17, Issue 4, pg. 8

Assistance Center to speak out about what we see, and know, regarding on-the-ground economics of rural America. RCAPs come face-to-face with real life interconnections among housing, public health, safety, and environmental well-being. We see how these affect not only a neighborhood, but neighboring communities, or communities and other rural residents that are part of a larger system such as a watershed.

### Partnering

RCAP is also able to form relationships with agencies and organizations to address issues affecting the availability of affordable housing. For example, USDA Rural Development is a primary federal force in rural water and waste development, providing loans and grants to small communities in rural areas. The agency assists low-income communities that would not otherwise be able to afford such services. RCAP has a nearly 20-year partnership with USDA Rural Development that enables communities to receive infrastructure assistance. Nearly all of the communities served last year under our partnership with USDA had median household incomes below the state non-metro median household income.<sup>20</sup> In addition to utility assistance, the four RCAP affiliates with active housing programs have a partnership with USDA's Rural Housing Service regarding 502 and 515 programs. When funding to either of these critical USDA funding conduits to rural areas is questioned, RCAP is in a position to speak knowledgeably about the needs and the benefits accruing to our constituencies through these resources.

USDA utility programs are subject to annual Congressional appropriations. The program loans and grants are used to develop water and waste disposal (which includes wastewater, solid waste disposal, and storm drainage systems) in rural areas and towns with populations of less than 10,000 and to reduce costs to a reasonable level for rural users.<sup>21</sup> Program funding is shifting from grant to loan at the same time that the economic bases (population and financial capacity) of many rural communities are shrinking. The FY 2007 loan-to-grant ratio for this program is obligated for 80% loans and 20% grants, a major readjustment for states such as Arkansas, Kansas, South Dakota, New York, and Louisiana, where grant funds disbursed in 2006 sometimes exceeded loan funds by a ratio of three-to-one.<sup>22</sup> In Utah, the change will be even more pronounced – all disbursements in that state last year were grants. What is the bottom line? David Miller, Community Programs Director, USDA Rural Development, New York recently observed: “A recent trend in reducing grant funding appropriations increases the need for leveraging USDA Rural Development funding with others to meet the ever-increasing demand for the program to achieve affordable infrastructure improvements.”<sup>23</sup>

The RCAP network speaks with a national voice on issues of water and wastewater in rural communities, and can extend that voice to issues related to affordable housing. Our ability to bring together communities in need and willing sources of funds is one of RCAP's strongest assets. Working with all the stakeholders – public and private agencies, financial institutions, legislators, and residents – we can voice concerns for affordability related to the infrastructure

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<sup>20</sup> USDA RHS data, as cited by the National Rural Housing Coalition FY 2007 Sign-on Letter, page 1; <http://www.nrhweb.org/appropriation/FY%2007%20Bonilla%20and%20Bennett%20sign%20on%20-%20FINAL.pdf>, pg. 4.

<sup>21</sup> Miller, David A., *USDA Rural Development Water and Environmental Program*, *Clearwaters Magazine* of the New York Water Environment Association, Inc., Winter, 2004, pg. 32

<sup>22</sup> USDA Rural Development handout, NYS

<sup>23</sup> Miller, David A., *USDA Rural Development Water and Environmental Program*, *Clearwaters Magazine* of the New York Water Environment Association, Inc., Winter, 2004, pg. 34

needs of rural communities because infrastructure costs negatively impact the affordability of housing.

The case for keeping rural America affordable should be heard. When RCAP speaks out about watershed protection, environmental health, and conservation of a healthy rural economy, we bring to the table perspectives that support calls for help by sister organizations whose principal focus is on housing. We believe that the issue of decent, safe, and sanitary housing for low-income people cannot be separated from the issue of creating necessary water and waste infrastructure. RCAP has the unique capacity to address both sides of these concerns concurrently, and we look forward to the debate.

## APPENDIX

In addition to various state, regional and other local organizations with which you have current affiliations, the following national ones can provide information. They also need and deserve our support:

- Housing Assistance Council
- National Low Income Housing Coalition
- Rural Assistance Center
- American Association of people with Disabilities
- Urban Institute
- National Association of Housing and Redevelopment Officials (NAHRO)
- Recapitalization Advisors Inc.
- American Planning Association
- FHL Banks
- National Rural Housing Coalition
- I'M HOME (CFED)
- The New Hampshire Community Loan Fund

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