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UNITED STATES DEPARTMENT OF AGRICULTURE
Farmers Home Administration

THE HOUSING AND URBAN DEVELOPMENT ACT OF 1965

Talk by Ralph Turner
Rural Housing Loan Division
at the 43rd Annual Agricultural Outlook Conference
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The Housing and Urban Development Act of 1965, which was signed by the President on August 10, is one of the most important pieces of housing legislation passed since the original housing act. It contains several new programs and improves and extends existing authorizations. This 1965 law is a major step toward achieving the goal of giving families in cities and in rural areas an opportunity to have a decent home.

I will review briefly some of the major changes in the new law and then discuss more fully the important changes in Title X which are directly related to housing in rural America.

One of the new approaches to providing adequate housing for families in the lower-income levels who cannot afford to pay for standard private housing in the regular market is the authority to make supplementary rent payments. Under this program, families in an area whose incomes are below the low-income levels that would be established for that area would receive the benefit of monthly payments sufficient to enable them to occupy privately financed housing.

Although this new approach to helping low-income families have a decent home is authorized by law, the program must await the appropriation of funds before it can become effective.

To qualify for rent supplements, the tenants, in addition to having low incomes, must be either elderly, handicapped, or displaced from their homes by Governmental action, occupants of substandard housing or occupants of housing extensively damaged or destroyed by natural disaster.

Tenants would be expected to pay 25 percent of their income for rent. The difference between their payments and the market rent for the units would be made by the rent supplement payment to be provided by appropriated Federal funds. The amount of rent supplement payment would be reduced as the tenant's income increases and the rent supplement would be discontinued entirely when the market rent does not exceed 25 percent of the tenant's income. Tenants could continue to occupy the housing even though they were no longer receiving rent supplement payments.

Under this program, certain nonprofit groups, limited dividend corporations, or cooperatives may sponsor housing for low-income families. The Federal Housing Administration will insure mortgages on housing built or substantially rehabilitated for the rent supplement program.

The 1965 law also authorizes the Federal Housing Administration to insure loans for the development of land for residential subdivisions. Under this program, mortgages may be insured to finance the purchase of land and the installation of improvements such as water, sewer lines, streets, curbs, gutters, sidewalks, and storm drainage facilities. One of the objectives is to provide better land use planning and development. Consistent with this objective, the development must represent sound land use and comply with a comprehensive plan for the development of the area. Consideration must be given to facilities such as shopping, schools, recreation, and other facilities necessary to the orderly development of a community.

Another feature of the new law authorizes the Administrator of the Housing and Home Finance Agency to make grants to local bodies and agencies to finance up to 50 percent of the development cost of public water and sewer facilities as well as two-thirds of the cost of neighborhood facilities such as community centers, youth centers, health stations, and other public buildings to provide health and recreational services in primarily low- or moderate-income neighborhoods.

Of special interest to families in rural areas is the increase in the maximum loan from \$11,000 to \$12,500 under the 203 (i) program of the Federal Housing Administration. This is a program designed to encourage more use of the Federal Housing Administration insured loans in small towns and outlying areas.

Other provisions of interest to individual families are the liberalized downpayment requirement for Federal Housing Administration insured loans.

Of direct concern to those of us engaged in serving rural communities is Title X of the 1965 Act. This includes far-reaching changes that will greatly broaden the opportunities available to rural families to have a decent home of their own.

Title X of the Housing and Urban Development Act recognized the need for additional housing credit in rural areas. It also recognized that a special type of assistance was needed for families in a rural environment - an environment in which construction on individual scattered lots is the rule and large-scale developments are the exception. Or stated differently, the initiative and responsibility for building a new home usually must be assumed by the families. They have little opportunity to shop for a home.

This expanded rural housing program promises to be a major step toward giving rural people equality of opportunity to have a decent home.

Historically, the rural third of our population has been less well housed than the two-thirds who live in cities and suburban communities. In this third of our population, 4.5 million families are living in homes that need major repair or replacement. The incidence of substandard housing is almost twice as great in the country as in the cities.

And much of the substandard housing in the country is unnoticed. It is less visible than the slums in our cities. It is off the beaten tracks and in the hinterlands; it is down the side roads and in the hollows and small towns of Appalachia and the Ozarks and in the clay hills and coastal plains of the South and in the cut-over regions of the Lake States. It is tucked away in areas where you will not see it if you fly or travel on major highways. This may be one reason why housing in the country has received much less attention than substandard housing in our cities.

Three major changes were made this year in the rural housing program of the Farmers Home Administration. These changes will help meet the widespread need for better housing in rural America. They are:

1. The basic program, under which loans are made to individual families, was placed on an insured basis.
2. The authority was broadened to permit any rural family to buy a building site on which to build their home or to buy a previously occupied home.
3. The concept of a rural area was extended to include places with not more than 5,500 population that are rural in character.

Under this new insured program, loans totaling \$300 million can be made each year by the Farmers Home Administration to families with low or moderate incomes. The interest rate on these loans is 5 percent.

Loans may also be insured for families with incomes above the moderate level. These families will pay interest rates comparable to the interest and insurance rates paid on home loans insured by the Federal Housing Administration. The current rate is 5-3/4 percent.

At first glance, this new insured loan program for rural areas may appear to be similar to the home loan program of the Federal Housing Administration. Functionally, it is the same in that it is a means of giving an individual family an opportunity to obtain long-term credit from local or central money sources.

The operation of the program, however, is somewhat different - different in order to meet the housing credit needs of families in rural areas who cannot obtain housing credit from other sources. The housing program of the Farmers Home Administration is specifically designed to help individual families who want to build or improve their homes. In most cases, these are families who have relatively low incomes and have had little experience and understanding of lending and construction requirements and practices.

Loans are made by the Farmers Home Administration to individual families to help them build, buy, or improve their homes. Farmers also may obtain loans for farm service buildings. These loans are held by private investors and insured by the Farmers Home Administration.

Families interested in obtaining a home loan may apply at the local Farmers Home Administration office serving the county in which the property is located. In a county office, employees of the Farmers Home Administration accept the application and check on the applicant. A county committee of three local residents determines whether the applicant is eligible. Most loans are approved locally.

The third change I mentioned is the new definition of a rural area. It now includes towns with populations of not more than 5,500 that are rural in character. In the past we have not made loans in any rural place with a population of more than 2,500. In 1960 there were about 2,000 rural towns in the United States in the 2,500-to-5,500 population category. Many of these towns are out of reach of the central money markets and housing credit in these places is not readily available, particularly for the families with low or moderate incomes.

This new concept of a rural area includes

1. A third of our population, and
2. Half of the substandard housing, and, incidentally,
3. About 98 percent of the privately owned land in the Nation.

This is a real challenge to all of us interested in broadening the opportunities to rural families to have a decent home.

Within rural areas are some groups with particularly serious housing problems. One such group is the elderly.

A third of our elderly live in rural areas. But they have more substandard housing than the two-thirds of the elderly who live in urban areas.

Many are living with relatives or in housing that does not even offer the basic facilities essential to health and comfortable living.

Low incomes of a high percentage of our rural elderly have contributed to their substandard housing. Their meager incomes have been needed to buy food, clothing and to pay medical bills. Housing improvements have been deferred because of the harsh economic facts of an inadequate budget. This has accelerated the rate of deterioration of the homes in which many of our elderly people have lived.

Most of them live in small towns. In 1960, for example, 12.3 percent of the population 65 years of age and over lived in small rural towns compared to 8.8 percent on farms. Some of our rural counties have heavy concentrations of persons 65 years old and over. In fact, in 1960 there were 300 such counties in the United States. These are largely rural counties.

The authority we have to make loans to elderly rural families to help them have a decent home of their own recognizes two basic facts. One is that rural people are accustomed to having a home of their own even during their retirement years. And the other is that low incomes are a barrier to many of the elderly having a decent home of their own. The law therefore permits the use of a cosigner on notes when the elderly applicant does not have sufficient income to repay a loan. This has been used quite extensively.

Our senior citizens housing program has had a modest beginning, but interest is increasing. Since it started several years ago, we have made about 4,000 loans totaling almost \$20 million to families to help them build, buy, or improve a home of their own. The 1965 law continues a maximum 4 percent interest rate on direct loans and permits amortization periods up to 33 years.

Another phase of our housing program for the rural elderly is loans to finance rental housing. This housing may be separate houses, duplexes, or apartments and, in any case, must be designed for independent living.

Direct loans may be made to private nonprofit organizations and consumer cooperatives. These loans bear 3 percent interest and may be repaid over a 50-year period. The 3 percent interest rate is a new maximum established by the 1965 housing law. These low-interest rate loans may be used to finance housing for elderly rural families with low or moderate incomes.

In 1965 our authority to insure loans for rental housing has been extended for four years. These loans may be made to private individuals or corporations or other organizations interested in providing housing for the rural elderly. Since these loans may be made to applicants interested in

making a profit from the rental of the property, the loans bear 5-3/4 percent interest. They are repayable over a period up to 40 years.

To date we have made and authorized approval of 125 of these loans totaling \$7.5 million. The average cost per unit has been about \$7,000 with rents ranging from a low of \$35 to a high of \$105. The \$105 rent is for a 2-bedroom unit and includes utilities.

Adequate housing for the elderly can be provided through community action. Let me give you an example of what happened in Oak Grove, Missouri. Here a group of local citizens formed a nonprofit organization. Membership contributions provided the initial capital needed to start operation of a senior citizens rental housing project. The Farmers Home Administration made a loan of \$108,000 to finance 20 units and a recreational building. The rents are reasonable, ranging from \$35 to \$40 a month. They are within reach of low-income families. This housing is something that the community of Oak Grove needed, wanted, and will support. In fact, the organization already has requested a subsequent loan to build more units.

Title X of the Housing and Urban Development Act also extended for four years and increased the authorized funds for a new program to help improve the housing of our domestic farm workers. They are the poorest housed people in rural America. More specifically, last year the Congress authorized a program under which grants could be made up to two-thirds of the cost of construction to help finance housing for domestic farm laborers. These grants are available to public bodies and to broadly based nonprofit organizations interested in providing housing as a community service. This program recognizes the economic difficulties involved in providing housing for low-income families who are employed for a relatively short time in any one location and who may actually need housing at three or four locations during the year. The amount authorized to be appropriated for grants was increased from \$10 million to \$50 million and the authority was extended for four years. An initial appropriation of \$3 million is available this year to start this program.

I also want to mention another law passed this year which will affect the health and welfare of rural families. It is the new water and sanitation law - Public Law 89-240 - which amended the association loan authorizations in the Consolidated Farmers Home Administration Act of 1961.

The Farmers Home Administration has for many years had authority to make loans to finance water systems in the open country and in rural towns with populations up to 2,500. This new law recognizes that in many cases water systems and waste disposal systems in rural areas are not economically feasible if they must be financed solely with loan funds. This new legislation became law on October 7. It:

- provides financial assistance for rural waste disposal systems.

- authorizes, for the first time, grants to supplement loans for rural water and waste disposal systems. Grants may not exceed 50 percent of the construction cost of a project.

- authorizes, for the first time, grants totaling \$5 million a year for comprehensive planning of water and sewage systems.

- increases from 2,500 to 5,500 the size of rural towns eligible for such assistance.

- increases from \$1 million to \$4 million the maximum size of a loan, or a combination loan and grant, for water supply or waste disposal systems.

The new legislation holds great promise of improving the health and living conditions in rural areas. It also will help reduce the initial cost of homes and stimulate the construction and improvement of rural homes. The benefits of this new program will extend far beyond the community in which the people live. Many of our rural communities today are adding to the pollution of our lakes and streams. The benefits from installation of adequate sewage plants will help reduce such pollution and greatly improve the quality of the water.

The Congress has made \$20 million available for grants to start this new program. It also has increased the loan insurance authority for loans to finance water distribution and waste disposal systems.

Lending agencies generally - and the Farmers Home Administration in particular - are better equipped than ever before to help rural families who have the capacity to repay a loan have a decent home of their own.

What has been done to improve living conditions of rural families is a modest beginning. Much more needs to be done. The challenge ahead is how can we - and I mean all of us interested in the development of rural America - help make our rural communities better places in which to live.