CHAPTER II. PROGRAM OBJECTIVES AND CURRENT HOUSING CONDITIONS

Federal housing assistance programs are intended primarily to improve the living conditions and reduce the housing expenses of low- and moderate-income persons. In addition, however, most such programs are also expected to serve one or more other goals, including: promoting residential construction, increasing homeownership, expanding housing opportunities for disadvantaged groups, and encouraging community preservation and revitalization. This chapter describes housing assistance program objectives and examines recent trends in housing conditions.

IMPROVING HOUSING CONDITIONS AND REDUCING HOUSING COSTS

All housing assistance programs are designed to reduce the number of lower-income persons living in substandard housing and also to lower their housing costs. In the more than 40 years that the federal government has provided such aid, however, the nature of housing-related problems has changed substantially. During that period, the incidence of substandard housing has declined sharply, while the share of household income devoted to shelter has increased. As a result, high housing-cost burdens--that is, large proportions of income paid for shelter--are by far the most common housing-related problem facing lower-income persons today.

Improving Housing Conditions

By any available measure, housing quality has improved greatly in recent decades. Between 1940 and 1970, the proportion of all occupied housing units that were either physically dilapidated--a Census indicator of severe substandardness--or lacked complete plumbing facilities declined from 49 percent to just over 7 percent (see Table 1). Applying a different measure, as of 1977, approximately 5.5 million occupied housing units--or 7.4 percent of the total--were judged to be in need of some rehabilitation.[1] The most seriously deficient units represent a

1. The measure of housing condition employed here differs slightly from an earlier version used in a previous Congres- (Continued)

still smaller proportion--and more rapidly declining share--of all occupied dwellings.

Those housing deficiencies that remain are heavily concentrated among lower-income persons, especially renters. As of 1977, 17 percent of all renters with incomes low enough to quality for federal lower-income housing assistance--those with family incomes no greater than 80 percent of the area median--were living in units requiring rehabilitation. Among very-low-income renters--defined legislatively as those with family incomes no greater than 50 percent of the area median--the rate was nearly 20 percent (see Table 2). As of the same year, 7 percent of all lower-income homeowners and 9 percent of all very-low-income homeowners were living in units judged to be in need of rehabilitation.

Most of the general improvement that has taken place in housing conditions has been the result of high rates of private residential construction--permitting the replacement of deficient dwellings--and the upgrading of existing, physically inadequate structures. Both of these trends have, in turn, been largely due to rising personal incomes and the decisions of many persons to spend much of their added income for improved shelter. The construction of federally assisted projects set aside for lower-income families has played a relatively minor role in overall quality gains, accounting for less than one-tenth of the 12 million reduction between 1940 and 1970 in the number of households living in substandard housing. Federally assisted construction does, however, account for a substantial share of all well-housed lower-income persons. As of 1977, one-fifth of all very-low-income renters living in physically adequate units were receiving federal aid.

Reducing Housing-Cost Burdens

Trends in housing expenditures have been more complex than the trends in quality. Considering renters first, over the last several decades rents for constant-quality housing units have risen more slowly than has the median family income, allowing most families to afford the same quantity of housing for a smaller proportion of their income. At the same time, although the purchase

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1. (Continued)
sional Budget Office report, Federal Housing Policy: Current Programs and Recurring Issues (June 1978).

TABLE 1. PERCENT OF ALL HOUSING UNITS WITH SELECTED CONDITIONS: 1940-1977

Condition	1940	1950	1960	1970	1977
Lacking Some or All Plumbing Facilities	44.6	34.0	15.2	5.1	2.4
Dilapidated[a]	18.1	9.1	5.8	3.7	NA
Lacking Some or All Plumbing Facilities and/or Dilapidated	48.6	35.4	17.0	7.4	NA
In Need of Rehabilitation[b]	NA	NA	NA	NA	7.4

SOURCES: Unpublished Census data and CBO analysis of 1977 Annual Housing Survey

NA = Not available.

a. The Census definition of dilapidation has varied over time.

b. A unit is classified as in need of rehabilitation if it has at least one major deficiency or if it has two or more secondary defects. The major deficiencies are: (1) the absence of complete plumbing facilities; and (2) the absence of complete kitchen facilities. The secondary defects are: (1) three or more breakdowns of six or more hours each time in the heating system during the previous winter; (2) three or more times completely without water for six or more hours each time during the preceding 90 days, with the problem inside the unit; (3) three or more times completely without flush toilet for six or more hours each time during the preceding 90 days, with the problem inside the unit; (4) leaking roof; (5) holes in interior floors; (6) open cracks or holes in interior walls or ceilings; (7) broken plaster or peeling paint over more than one square foot of interior walls or ceilings; (8) unconcealed wiring; (9) the absence of any working light in public hallways for multi-unit structures; (10) loose or no handrails in public hallways for multi-unit structures; and (11) loose, broken, or missing steps in public hallways in multi-unit structures.

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TABLE 2. NUMBER AND PERCENT OF HOUSEHOLDS LIVING IN UNITS REQUIRING REHABILITATION, BY TENURE AND INCOME: 1977 (In thousands of households)

	Annual Family Income[a]				
	Very Low	Low	Moderate	Middle and Upper	All Households
Renters					
Living in units requiring rehabilitation[b]	2,112	731	240	639	3,722
As percent of all households in category	19.8	12.4	10.7	8.2	14.0
Homeowners					
Living in units requiring rehabilitation[b]	829	345	111	540	1,825
As percent of all households in category	9.3	4.3	2.5	2.0	3.7

SOURCE: CBO estimates based on 1977 Annual Housing Survey.

a. Income classification based on that used in federal housing assistance programs. For four-person households, the definitions are:

Very low	=	Annual family income less than or equal to 50 percent of area median.
Low	=	Annual family income between 51 and 80 percent of area median.
Moderate	=	Annual family income between 81 and 95 percent of area median.
Middle and upper	=	Annual family income greater than 95 percent of area median.

Threshold amounts for households of less or more than four persons are somewhat lower and higher than these amounts.

b. See Table 1 for definition of housing in need of rehabilitation.

price of homes rose sharply during the past decade, the expectation of capital gains after purchase and the large shares of homeownership expenses that are deductible from income in determining federal tax liability caused the net effective after-tax cost of buying and maintaining a home to decline in real terms during most of the 1970s. This, in turn, has induced many homebuyers to devote larger shares of their incomes to housing and has led other persons who might otherwise have rented to purchase homes instead--leaving rental housing increasingly the domain of the less well off.[2]

As a result of all these trends taken together, the proportion of all households paying large shares of their incomes for housing has grown. Among renters alone, the proportion paying more than one-fourth of their incomes for housing rose from 32 percent in 1950 to 51 percent by 1979--reflecting both the movement of higher-income families to owner-occupancy and the preferences of those who remained as renters. Among homeowners, the proportion spending more than one-fourth of their incomes for shelter rose from 16 percent to 21 percent between 1974 and 1978 alone. The proportion of all first-time homebuyers devoting more than one-fourth of their incomes to housing grew from 29 percent to 40 percent during the same period and has almost certainly increased since then as well.[3]

Although increasing housing-cost burdens reflect free choices for many persons, rising shelter costs have left large numbers of lower-income persons facing potentially burdensome housing expenses, with the problem especially pronounced among renters. As of 1977, nearly two-thirds of all very-low-income renters and almost one-half of all very-low-income homeowners were paying more than 30 percent of their incomes for housing (see Table 3). As of the same year, 29 percent of all very-low-income renters and 17 percent of all very-low-income homeowners were spending more than one-half of their incomes for shelter.

Most federal housing assistance programs address the housing-cost burdens of the poor by limiting participants' out-of-pocket housing expenses to a fixed proportion of their incomes--25 percent today for most programs but due to rise to 30 percent by

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2. For a more complete discussion of trends in housing costs and expenditures, see The President's Commission on Housing: Interim Report (October 30, 1981), pp. 18-30.

3. CBO tabulations of Annual Housing Surveys.

TABLE 3. PERCENT OF HOUSEHOLDS SPENDING SPECIFIED SHARES OF INCOME FOR HOUSING, BY TENURE AND INCOME: 1977

Tenure and Percent of Income Paid for Housing[a]	Annual Family Income[b]				All Households
	Very Low	Low	Moderate	Middle and Upper	
Renters[c]					
0 - 30 percent	37.4	73.8	93.0	98.3	69.6
31 - 50 percent	34.2	23.8	6.5	1.6	19.3
51 percent or more	28.5	2.4	0.5	0.1	11.1
Median Percent of Income Paid for Housing[d]	40	25	20	15	23
Homeowners[e]					
0 - 30 percent	52.8	80.0	88.5	96.9	86.8
31 - 50 percent	29.8	17.5	10.5	2.9	10.0
51 percent or more	17.4	2.6	0.9	0.2	3.2
Median Percent of Income Paid for Housing	29	20	18	13	16

SOURCE: CBO estimates based on Annual Housing Survey.

a. Housing costs for renters include rent payments due the landlord plus utility and fuel costs not included in the rental payment. Housing costs for homeowners include principal and interest payments on the mortgage, real estate taxes, property insurance, utilities, fuel, water, and garbage and trash collection fees.

b. See Table 2 for definitions of income categories.

c. Excludes renters of single-family homes on ten acres or more.

d. Excludes households paying no cash rents.

e. Limited to owner-occupants of single-family homes on less than ten acres and with no business on the property.

fiscal year 1986. Although only a small minority of all eligible families receive aid, those families constitute a large share of all poor households with low housing-cost burdens. As of 1977, while only about one-fifth of all very-low-income renters were receiving federal assistance, those households represented half of all very-low-income tenants spending no more than one-fourth of their incomes for shelter.

OTHER POLICY OBJECTIVES

In addition to improving the living conditions and reducing the housing costs of lower-income persons, most federal housing assistance programs are also expected to address other policy objectives, including:

- Promoting housing production and dampening cyclical swings in residential construction;
- Increasing homeownership;
- Expanding housing opportunities for disadvantaged groups and for persons with special housing needs; and
- Promoting neighborhood preservation and revitalization.

In pursuing these goals, lower-income housing assistance programs generally play a secondary role to other federal measures, including: tax and regulatory policies, federal mortgage insurance programs, and direct community development aid.

Promoting Residential Construction and Stabilizing the Construction Industry

Assuring a supply of new housing sufficient to meet demand, and dampening swings in residential construction, have long been federal policy objectives. Recently, concern regarding the adequacy of supply has focused principally on rental housing; cyclical volatility is generally viewed as a greater problem in the much larger single-family, owner-occupancy submarket.

Federal housing assistance programs contribute to overall residential construction through the production of rental housing projects set aside for lower-income families and by subsidizing the purchase of newly built homes for limited numbers of low- and moderate-income persons. In neither instance, however, does the net impact of federal aid equal the full volume of assisted construction, because much of the federally aided construction almost certainly substitutes for privately financed activity that would have occurred in any event.[4]

The net impact of federally assisted construction on cyclicality in the construction industry has been uneven. Although federally assisted activity has occasionally accounted for large proportions of all construction--particularly in the multifamily submarket--aided construction has by no means acted as a consistently countercyclical force. Indeed, during the early- to mid-1970s, assisted construction occurred largely procyclically--contributing to, rather than alleviating, market swings.[5] Overall, general monetary policy and tax provisions affecting

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4. Estimates of the degree of substitution between federally subsidized multifamily construction and activity that would have occurred in any event run as high as 60 percent. See James E. Wallace, "The Section 8 New Construction Program," staff background paper prepared for Committee on Federal Housing Programs and Alternatives, The President's Commission on Housing (August 26, 1981).

5. Beginning in the late 1970s, as construction starts for privately financed multifamily housing dropped off sharply, federally aided building has come to account for an increasingly large share of all activity in that submarket--representing two-thirds of all multifamily construction starts in 1980. This likely reflects some combination of (a) an increasing substitution of federally assisted activity for privately financed construction that would have occurred in any event, and (b) the declining profitability of rental housing as an investment that may have discouraged privately sponsored construction even in the absence of large amounts of federal aid. For varying views regarding the adequacy of recent rates of privately financed rental housing production and future prospects, see, among others: General Accounting Office, Rental Housing: A National Problem That Needs Immediate Attention (November 1979); U.S. Department of Housing and Urban Development, Rental Housing: Condition and Outlook, a 1981 report to the Congress; George Sternlieb and Robert W. Burchell, "Multifamily Housing Demand: 1980-2000," Journal of American Real Estate and Urban Economics Association (Spring 1979); and John C. Weicher and others, Rental Housing: Is There a Crisis? (The Urban Institute, 1981).

housing have almost certainly had much greater impacts on total housing production and on the timing and severity of housing cycles.

Increasing Homeownership

For many years, the federal government has promoted homeownership through favorable tax treatments for homeownership expenses, the regulation of private lending institutions to funnel credit into residential mortgages, and large-scale mortgage insurance programs. In part as a consequence of these policies, the proportion of all households owning their own homes has increased steadily over the past several decades, growing from less than one-half in 1940 to nearly two-thirds in 1980. Furthermore, homeownership rates continued to increase slightly even in the face of the especially sharp price increases that occurred during the last decade. Indeed, in one respect, those price rises may have helped fuel the continued movement toward homeownership by making the decision to buy a home increasingly an investment as well as a shelter choice. The sharp and persistent rise in mortgage interest rates that has taken place during the last few years may, however, dampen this movement, at least in the near future.

Direct housing assistance programs have helped substantial numbers of low- and moderate-income persons purchase homes but--because of their limited scope--have contributed little to overall homeownership gains. During the early 1970s, when these programs were most active, up to 260,000 homebuyers were aided in any one year. This figure is small compared to the 1.6 million to 2.1 million renters who bought homes annually during the mid-1970s but is substantial relative to the 500,000 to 700,000 low- and moderate-income renters who purchased homes each year between 1974 and 1978.

Expanding Housing Opportunities

Another goal of housing assistance programs has been to enhance locational opportunities for disadvantaged groups and to expand the supply of dwellings available to those with special housing needs. In this vein, housing programs have been used to increase the access of lower-income persons to high-cost areas, to expand opportunities for minority-headed households in areas with low concentrations of minorities, and to increase the supply of housing units designed to meet the needs of the elderly and the handicapped. Expanding the locational choices of lower-income and minority-headed households has generally involved locating federally assisted housing projects in neighborhoods that may previously have been closed to them. More recently, rent subsidies for persons living in existing dwellings have also been used to expand housing access. Increasing the supply of housing for the elderly and the handicapped has generally involved setting aside certain numbers of units--or, in the case of the elderly, entire projects--for them.

Promoting Community Preservation and Revitalization

For some years now, housing programs have also been expected to help promote community preservation and revitalization. Most often this has involved attempts to use federally assisted housing projects to spur further residential and commercial investment in declining areas or to arrest decline in areas beginning to experience disinvestment. More recently, there has been interest in using housing assistance to maintain economic integration in areas undergoing rapid reinvestment with its associated increases in housing costs. The net effect of federal housing aid in achieving either of these objectives is difficult to assess.

CHAPTER III. PRESENT FEDERAL EFFORTS

Numerous federal housing assistance programs address the policy objectives discussed above. This chapter describes current assistance programs, their budget treatment, and the volume of housing subsidy commitments outstanding.[1]

CURRENT PROGRAMS

Federal housing assistance programs subsidize the shelter costs of both renters and homeowners over a wide income range. Most federal assistance, however, is directed to very-low-income renters living either in predesignated newly built projects or in previously existing dwellings of their own choosing. Taken together, federal housing assistance programs serve a small proportion of all eligible households at a high average cost per beneficiary.

The principal currently active housing assistance programs--listed in Table 4--include the following:[2]

- o Section 8 rental assistance;
- o Public housing;

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1. This chapter describes only direct expenditures for housing. The numerous federal tax provisions that subsidize the consumption or production of housing are not considered. Together, those provisions, which benefit principally middle- and upper-income homeowners and investors in rental housing, are expected to result in revenue losses of more than $30 billion in fiscal year 1982--more than three times the expected level of direct expenditures for lower-income housing aid.

2. Table 4 also describes outstanding assistance commitments and present expenditures under two currently inactive rental assistance programs--the Section 236 mortgage interest subsidy program and the rent supplement program. Commitments (Continued)

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- o Section 235 homeownership assistance;
- o Farmers Home Administration homeownership and rental assistance programs;
- o Section 312 rehabilitation loans; and
- o Housing assistance funded through the Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs.

Section 8 Rental Assistance

The Section 8 rental assistance program, administered by the U.S. Department of Housing and Urban Development (HUD), is the largest and most rapidly growing housing assistance program. First authorized in 1974, the Section 8 program subsidizes lower-income persons living in newly built, rehabilitated, or existing physically standard dwellings. Under all the program variants, tenants contribute a fixed percentage of their incomes toward their own housing costs--currently set at 25 percent of adjusted income for most households but due to rise to 30 percent by fiscal year 1986.[3] The federal government pays the property owners the difference between the tenant contributions and the full market rents on the units.

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2. (Continued)
and expenditures are not listed separately for the Section 202 program, which provides direct loans to nonprofit sponsors to finance rental housing projects for the elderly and for handicapped persons. Most dwellings financed with Section 202 loans are also subsidized through one of the rent subsidy devices listed in Table 4. Since 1974, all Section 202-financed projects have also received aid under the Section 8 new construction/substantial rehabilitation program described in this chapter.

3. The Budget Reconciliation Act of 1981 raised the rent-to-income ratio from 25 percent to 30 percent of income, while granting the Department of Housing and Urban Development the flexibility to phase in the increase between fiscal years 1982 and 1986. The Department has announced its intent to apply the 30-percent-of-income standard immediately to all new tenants while phasing in the increase over the next five years for already-assisted households.

TABLE 4. CURRENT HOUSING ASSISTANCE PROGRAMS

Program	Assistance Commitments Outstanding through 1981 (thousands of households)	Additional Commitments Fundable in 1982[a] (thousands of households)	Total Direct Expenditure in 1982 (millions of dollars)[b]
Section 8 Rental Assistance			
New construction and substantial rehab.	794	46	2,016
Existing housing and moderate rehab.	970	133[c]	1,902
Public Housing	1,398	24	2,839
Section 236 Rental Assistance	537[d]	--	665
Rent Supplement Program	158	--	276
Section 235 Homeownership Assistance	265	15	285
Farmers Home Administration Rural Housing Programs			
Homeownership loans	961	68	1,186
Rental housing loans and rental assistance	254[e]	29	423
Section 312 Rehabilitation Loans	122[f]	5	NA
CDBG- and UDAG-Funded Housing Programs			
CDBG-funded programs	450[g]	225	NA
UDAG-funded programs	59	10	NA

(Continued)

TABLE 4. (Continued)

SOURCES: U.S. Department of Housing and Urban Development and Department of Agriculture budget and program evaluation documents, and CBO estimates.

NOTE: All years are fiscal years. NA = Not available.

a. Estimates of additional subsidy commitments fundable in 1982 are based on funding levels provided in appropriations acts passed during the first session of the 97th Congress plus unspent budget authority carried over from fiscal year 1981. The expected mix among Section 8 and public housing commitments reflects the Department of Housing and Urban Development's current spending plan, assuming the use of all available funds.

b. Direct expenditures are estimated outlays in all cases except for Farmers Home Administration (FmHA) programs. Expenditures for FmHA programs include annual interest-subsidy costs for outstanding loans plus rental assistance payments for occupied units.

c. Includes 117,000 commitments involving the conversion of outstanding subsidy agreements from other assistance devices to Section 8 existing-housing.

d. Includes approximately 160,000 households receiving Section 8 existing-housing assistance or rent supplement aid in addition to the benefits of the mortgage-interest subsidies provided through the Section 236 program.

e. Total number of dwelling units in projects financed with rural rental housing loans since the outset of the program. Commitments were also outstanding to provide supplementary rental assistance payments on behalf of the occupants of 81,000 of those units.

f. Number of units covered by all Section 312 loans written through the end of fiscal year 1981. This figure is not adjusted to reflect loan repayments.

g. Estimated number of dwelling units rehabilitated with CDBG funds provided through fiscal year 1981.

New Construction and Substantial Rehabilitation. Under the Section 8 new construction and substantial rehabilitation programs, the federal government subsidizes persons living in new or largely rebuilt housing. In these programs, HUD enters into 20- to 40-year assistance agreements with property owners, helping to assure a long-term rental income stream for those units set aside for lower-income tenants. Most Section 8 projects also benefit from one of several financing subsidies that reduce the effective interest rates paid on project mortgages.

Approximately 790,000 Section 8 new construction and substantial rehabilitation assistance commitments were outstanding at the end of fiscal year 1981, and about 46,000 additional commitments are fundable in 1982.[4] Starting rents in newly assisted projects are likely to average about $7,000 per year, with federal assistance payments exceeding $5,000 per unit when those projects are first occupied.[5] Supplementary financing subsidies will contribute several hundred dollars more per unit in outlays or forgone tax revenues. Rental assistance payments alone associated with the 580,000 units expected to be eligible for payment in 1982 are expected to total about $2 billion.

Existing Housing and Moderate Rehabilitation. The Section 8 existing-housing and moderate rehabilitation programs aid persons living in existing physically standard units or in dwellings that can be brought up to standards with limited repairs. Under both these programs, HUD enters into 15-year contracts with local housing agencies to subsidize persons residing in units of their own choosing in the private market. In both cases, the dwellings must eventually pass minimum quality standards and must rent for no greater than HUD-established maximums. Because funds are available to serve only a small portion of all eligible households, administering agencies must ration aid locally by selecting beneficiaries from among qualifying applicants.

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4. All estimates of numbers of assistance commitments supportable in 1982 are based on funding levels provided in appropriations acts passed during the first session of the 97th Congress plus unspent budget authority carried over from 1981. The estimates do not reflect funding rescissions proposed by the Administration.

5. Per-unit cost estimates appearing in this chapter are based on the latest available program information, adjusted for future years in accordance with Congressional Budget Office economic assumptions as of January 1982.

Approximately 970,000 subsidy commitments had been made under these programs through September 1981. Another 133,000 commitments are fundable in fiscal year 1982, of which 117,000 will entail the substitution of Section 8 existing-housing assistance for some other form of aid for already-assisted dwellings. Annual full market rents for the net additional commitments are expected to average $3,600 for existing, near-standard units and $4,600 for dwellings requiring moderate rehabilitation. The first-year subsidies are expected to average about $2,200 and $3,100 per unit, respectively.[6] Outlays on behalf of the nearly one million households expected to be receiving aid in 1982 will total about $1.9 billion.

Public Housing

The public housing program, first authorized in 1937, also serves lower-income renters. Under this program, HUD pays the full development and financing costs--principally through tax-exempt bonds and notes--for newly built or rehabilitated projects that are owned by local housing agencies and made available to lower-income families at rental charges comparable to those paid by Section 8 tenants. In addition to paying all debt-service costs, for each of the past several years the federal government has also paid a share of the operating expenses for most projects. As with the Section 8 existing-housing program, local agencies managing public housing projects must ration aid among qualifying applicants.[7]

Approximately 1.4 million public housing subsidy commitments were outstanding at the end of fiscal year 1981. An additional 24,000 housing units could be built with funds available in 1982. Annual debt-service costs for the newly assisted dwellings are likely to exceed $6,000 per unit.[8] Most newly assisted units will

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6. Figures exclude administrative fees paid to local agencies.

7. For a description of how agencies select public housing tenants, see Raymond J. Struyk and Jennifer L. Blake, Determining Who Lives in Public Housing (The Urban Institute, March 1982).

8. The difference in expected subsidy costs between public housing and Section 8 new construction assistance commitments may reflect in part some difference in the mix of households (Continued)

also eventually require operating subsidies, which are expected to average about $1,000 per unit for all dwellings available for occupancy in 1982. Direct expenditures associated with the 1.2 million public housing units available for occupancy in 1982 are expected to total more than $2.8 billion--nearly $1.6 billion for debt-service expenses and just under $1.3 billion for operating subsidies.

Section 235 Homeownership Assistance

The Section 235 homeownership assistance program, also administered by HUD, provides annual mortgage interest subsidy payments on behalf of low- and moderate-income persons buying newly built or substantially rehabilitated homes. First authorized in 1968, the Section 235 program aids households with incomes below 95 percent of the area median, generally limiting their mortgage principal and interest payments plus property taxes to 20 percent of their incomes. Initially the program assisted principally low-income homebuyers, reducing their effective mortgage interest rates to as low as 1 percent. After experiencing high default rates, however, that form of the program was suspended in 1973. When reinstated two years later, assistance was targeted on households with incomes nearer the eligibility ceiling and the minimum effective interest rate was raised--reaching 8 percent for the most recently assisted households. In 1980, another program variant was authorized--but not funded--to provide more limited subsidies as a countercyclical housing stimulus device.

Although no new funds have been provided since fiscal year 1981 to finance additional Section 235 assistance commitments, previously appropriated funds are expected to be sufficient to aid approximately 15,000 additional homebuyers in 1982. About $285 million are expected to be expended in 1982 to cover the 260,000 households receiving aid as a result of past agreements.

Farmers Home Administration Programs

The Farmers Home Administration (FmHA)--an agency of the Department of Agriculture--provides homeownership and rental

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8. (Continued)
served, with public housing expected to aid larger households on average, thus requiring larger units and, therefore, higher average development costs.

assistance to lower-income rural residents, principally through reduced-interest loans.[9]

Homeownership Loans. Under the Section 502 program, first authorized in 1949, the FmHA makes reduced-interest loans to lower-income families purchasing modest-priced homes. Families with adjusted incomes no greater than 80 percent of the area median--$11,500 to $18,000 within the continental United States for areas served by the FmHA--may qualify for mortgages with effective interest rates as low as 1 percent, limiting their total mortgage payments, property taxes, and insurance costs to 20 percent of their incomes. Households with incomes up to $5,500 above those levels may receive fixed-rate loans at interest charges approximating federal long-term borrowing costs--generally a few percentage points below prevailing private mortgage interest rates.

At the end of fiscal year 1981, $19.2 billion in Section 502 loans were outstanding, covering about 960,000 borrowers. In 1982, an additional 67,500 families are expected to receive $2.7 billion in Section 502 loans at an estimated average annual interest rate of 5 percent or less. The interest-subsidy cost for all outstanding Section 502 loans is expected to total $1.2 billion during 1982.

Rental Housing Assistance. The FmHA provides rental housing assistance through a combination of reduced-interest project loans and supplementary rental assistance payments. The Section 515 loan program--first authorized in 1962--provides 1-percent-interest mortgages to nonprofit and limited-profit organizations and state and local governments to finance the construction of rental projects for low- and moderate-income households, the elderly, and handicapped individuals. Supplementary rental assistance payments--similar to those provided through Section 8--further reduce housing costs for some of the lowest-income tenants, limiting their out-of-pocket housing expenses to 25 percent of their incomes.[10]

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9. For a more complete description of FmHA housing programs and their costs, see Congressional Budget Office, Rural Housing Programs: Federal Costs and Budget Treatment (June 1982).

10. Under an agreement between the departments of Agriculture and Housing and Urban Development, Section 8 assistance has also (Continued)

By the end of 1981, Section 515 loans had been written covering approximately 250,000 housing units, and commitments had been made to provide supplementary rental assistance to 81,000 of those households. Section 515 loans covering an additional 29,000 housing units are expected to be obligated in 1982, and 14,000 new or extended commitments are expected to be funded under the rural rental assistance payments program. Interest-credit and rental assistance expenses for those households receiving aid in 1982 are expected to total about $423 million during that year alone.

Section 312 Rehabilitation Loans

The Section 312 program, first authorized in 1964, provides subsidized loans to homeowners and landlords to finance the rehabilitation of properties requiring significant repairs to be brought up to local code standards. Under the Section 312 program, HUD allocates funds to local housing agencies that make reduced-interest loans to owners of properties located in areas designated to receive concentrated public investment. Most loans go to homeowners with incomes less than 95 percent of the area median and to owners of multifamily rental properties located in low- and moderate-income neighborhoods or in which a majority of the initial tenants will have incomes below 95 percent of the area median. Until 1982, all Section 312 loans were written at interest rates of 3 percent. Beginning this year, while 3-percent-interest loans will continue to be offered to homeowners with incomes below 80 percent of the area median, higher-income homeowners will be charged 11 percent. Also beginning in 1982, loans to finance repairs to multifamily structures will be written at interest rates of either 5 or 11 percent, depending on the degree of private financial contribution.

Lending under the Section 312 program has fluctuated widely in recent years, reaching a peak of $225 million in 1979—enough to finance repairs to 21,000 housing units. Fiscal year 1982

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10. (Continued)
been provided for a share of each year's Section 515-financed projects. For Section 515/Section 8 projects, the interest rate charged on the FmHA loan is generally only one to two percentage points below average long-term federal borrowing costs, thus requiring larger rental assistance payments than are needed for 1-percent-interest projects that receive supplementary rental aid through the FmHA.

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lending will be limited to funds available through loan repayments--currently estimated at about $68 million, sufficient to finance repairs to approximately 700 single-family homes and about 4,500 units in multifamily structures.

Federally Funded Community Development Programs

In addition to providing housing aid directly, the federal government also funds locally designed and administered programs through the Community Development Block Grant and Urban Development Action Grant programs.

Community Development Block Grants (CDBG). The CDBG program--administered by HUD--provides relatively unrestricted assistance to all metropolitan cities and urban counties on an entitlement basis and to many smaller cities through competitive grants. Although program rules prohibit the use of CDBG funds to subsidize new residential construction, housing rehabilitation is permitted and has consumed a growing share of funds since the program's inception in fiscal year 1975. By 1981, about 36 percent of all spending by entitlement jurisdictions was expected to be devoted to residential rehabilitation, making it the largest single activity funded under the CDBG program.[11] Applying that proportion to the 1982 appropriation of $3.5 billion, approximately $1.3 billion in CDBG funds may be expected to be devoted to rehabilitation this year--sufficient to support the upgrading of approximately 225,000 housing units. Most CDBG-funded programs provide grants or reduced-interest loans to low- and moderate-income homeowners to subsidize moderate rehabilitation.

Urban Development Action Grants (UDAG). A sizable proportion of the funds provided to localities through the Urban Development Action Grant (UDAG) program are also used to finance housing assistance. Under the UDAG program--initiated in fiscal year 1978--HUD awards grants to distressed cities and to other jurisdictions where there are pockets of poverty to support joint public-private redevelopment projects. About one-fourth of all UDAG projects approved during the first four program years involved either the construction of new housing or the upgrading of existing units, with the emphasis shifting over time toward

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11. U.S. Department of Housing and Urban Development, Consolidated Annual Report to Congress on Community Development Programs (April 7, 1982), pp. 29-30.

rehabilitation. About one-half of all UDAG-assisted units are expected to be occupied eventually by low- and moderate-income households, with the trend moving toward less income targeting from the first to the fourth program year.[12] If housing aid represents the same proportion of current-year UDAG efforts, the 1982 appropriation of $440 million could support the construction or upgrading of about 10,000 dwellings.

THE BUDGET TREATMENT OF PRESENT PROGRAMS AND OUTSTANDING ASSISTANCE COMMITMENTS

The principal federal housing assistance programs are funded through annual authorizations and appropriations that provide specified amounts of long-term spending authority or loan authority to fund additional subsidy commitments. For each of the last few years, the Congress has also specified what the funding mix should be, first, between HUD's new construction and existing-housing rental assistance programs, and, second, between FmHA low-income and moderate-income rural housing programs. Currently, the mix between FmHA homeownership and rental assistance is set administratively by the Department of Agriculture.

In recent years, the number of commitments made annually under HUD's rental assistance programs has declined from a high of more than 500,000 in fiscal year 1976 and the three months following to about 200,000 in each of the last few years (see Table 5). HUD currently expects to fund just over 200,000 subsidy commitments in 1982, if all available spending authority is used. Under the Department's present spending plan, however, more than half of those commitments will represent conversions from one form of assistance to another, rather than net additions to the number of households aided. Through 1980 the program mix was set by HUD, based in part on the preferences of local governments; during that period, the reliance on new construction and substantial rehabilitation increased. In the last few years, however, the program mix has been set partially by law and has shifted back to a greater emphasis on existing-housing assistance. The number of additional FmHA assistance commitments made annually has also declined somewhat over the last several years. During that time, rental assistance has grown as a share of all rural housing aid, and available assistance has been increasingly targeted on low-income persons.

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12. Ibid., pp. 72-73.

TABLE 5. NUMBER OF ASSISTANCE COMMITMENTS MADE ANNUALLY AND PROGRAM MIXES UNDER HUD AND FmHA HOUSING ASSISTANCE PROGRAMS: FISCAL YEARS 1976-1982

Program	1976[a]	1977	1978	1979	1980	1981	1982 (est.)[b]
HUD Rental Assistance Programs (Section 8/Public Housing)							
Assistance commitments made (in thousands)[c]	517	388	326	325	206	178	202[d]
Percent distribution:							
New construction/substantial rehab.	39	52	55	61	63	43	35
Existing-housing/moderate rehab.	61	48	45	39	37	57	65
FmHA Homeownership and Rental Housing Loans							
Assistance commitments made (in thousands)	164	139	135	132	115	99	97
Percent distribution:							
Homeownership assistance	81	77	75	71	71	70	70
Rental assistance	19	23	25	29	29	30	30
Low-income	68	70	72	78	83	91	88
Moderate-income	32	30	28	22	17	9	12

SOURCES: HUD and FmHA budget documents.

a. Includes transition quarter between July-to-July and October-to-October fiscal years.

b. Estimates assume the use of all funding provided in appropriations acts passed during the first session of the 97th Congress plus budget authority carried over from 1981.

c. Figures for 1976-1981 are additional assistance commitments made net of deobligations during the same year. Figure for 1982 represents gross additional commitments.

d. Includes 117,000 conversions of already assisted dwellings to Section 8 existing-housing assistance.