Dateline Raleigh

Farmers Home Administration (FmHA)

For Many North Carolinians, It's "The Loan"

by Ferrel Guillory

A new FmHA home ready for sale in Wendell, N.C., 1982.

A young Raleigh woman recently bought a three-bedroom, passive solar heated house in Zebulon, a town of 2,055 just east of the capital city. With an annual income of about $12,700, this woman could not have afforded the $42,000 home at today's mortgage interest rates of 14 to 17 percent. But because she was willing to live in a small town and because of her income level, she qualified for a Farmers Home Administration loan. Though she is not a farmer, she got a mortgage at 3¾ percent, keeping her monthly payments at a manageable $212.

Since 1968, when the Farmers Home Administration (FmHA) moved into the housing business in a major way, some 75,000 North Carolina families have been able to purchase homes at interest rates substantially below market levels. The FmHA rental housing program has also helped to finance some 8,000 units in rural areas, says Thurman Burnette, who heads the FmHA's housing division in North Carolina. For thousands of low- and moderate-income people in the rural reaches of North Carolina, FmHA has served as the primary source of affordable mortgage credit, the key to ownership of a decent dwelling.

Before joining the state FmHA office, Thurman Burnette ran the agency's Hyde County office. "In Hyde County," Burnette recalls, "I doubt if many people knew what FmHA was. We were just 'the loan.'"

In this state, poverty and its accompanying problem of inadequate housing are spread widely from hollows to branch heads, from back roads to small towns. Almost half of the 330,000 Tar Heel households below the poverty level live in rural areas. In the extremely rural Bertie, Gates, Madison, Northampton, and Warren Counties, one of every five housing units lacks complete plumbing; this is the primary measuring tool for substandard housing used by the U.S. Census.

In the 1970s, North Carolina made substantial gains in improving its housing stock, according to the "complete plumbing" criteria. During the decade, the number of year-round units without complete plumbing dropped 54 percent from 252,000 to 116,000. Much of this improvement took place in the rural parts of the state. FmHA cannot take credit for the entire decline, and indeed some of the state's worst housing remains in the mountain hollows and on the dusty back roads. But as the principal government housing program in rural areas, perhaps FmHA can claim, as Burnette says, to have "taken the top off" the rural housing problem.

FmHA – the lower case "m" sets it apart from its widely-known bureaucratic cousin FHA, the Federal Housing Administration – is a division of the U.S. Department of Agriculture. Created in 1948 out of the old Farm Security Administration, FmHA was conceived as an agency to help small farmers who couldn't get money anywhere else. Farmers must borrow large sums each year to get their crops in the ground. FmHA developed primarily as a lending institution to meet this need.

In the 1960s Presidents Kennedy and Johnson drafted FmHA into the war on poverty, considerably expanding the FmHA into the housing field. Since 1968, the FmHA has run a wide variety of housing-assistance programs, particularly a subsidized mortgage program for single-family homes. In addition, the FmHA:

- provides some unsubsidized mortgages to persons above FmHA income limits;

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> **Farmers Home "has taken the top off" the state's rural housing problem.**
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> *Thurman Burnette, FmHA housing division*

- grants loans to developers of multifamily rental housing so that reduced rents can be offered (rents in new FmHA financed units average about $200);
- makes housing grants to the low-income elderly for repairs;
- supports a farm-labor housing loan program;
- sponsors a housing-repair loan program for very low-income persons;
- maintains a group of model housing plans, including a passive solar design (about 500 solar homes in North Carolina have been financed since 1980); and
- makes site loans to non-profit organizations.

The law requires FmHA to target its housing assistance both to rural areas and to persons of low and moderate incomes. It can serve communities with a population up to 20,000 (up to 10,000 in metropolitan areas, thus excluding places like Cary, near Raleigh). For its mortgage subsidy and rental assistance programs, the maximum adjusted gross income of participants in 1981 ranged from $12,000 to $15,000. The interest rates on mortgages often were three to four percent.

In the case cited at the beginning of this article, the FmHA required the woman to devote 20 percent of her income to the house payment, taxes, and insurance. FmHA shares in the appreciation in the value of her home, eventually recapturing the subsidy on the interest rate if the house is later resold at a higher price. Because her lot had an $8,000 selling price, the $42,000 mortgage exceeded somewhat the standard FmHA loan. More typically, a mortgage will be no more than $38,000.

"Farmers Home is that rare federal bird, a direct lender," explains Martin Mayer in *The Builders – Homes, People, Neighborhoods, Governments, Money.* Applications for mortgages are made directly to FmHA county agents, a process that helps insure a foreclosure rate lower than other federally-supported housing programs. "While the FHA loses 85 percent of its insurance guarantee on the average foreclosure," Mayer wrote in 1978, "FmHA rarely takes a significant loss, because rather than go through a court proceeding (during which the householder in possession tends to let the house deteriorate mightily), FmHA agents try to find new purchasers for the home." In 1981, FmHA had 280 foreclosures and 148 voluntary conveyances on loans outstanding in North Carolina. Together, these account for less than one percent of the 63,000 total FmHA loans outstanding in the state.

At the FmHA prices, there are usually a lot of customers for vacated homes, especially in North Carolina which recently has received more FmHA housing funds than any other state. For fiscal 1982, North Carolina received an initial allotment for the FmHA single-family subsidized program of $115.6 million. Puerto Rico had the next highest allocation of $90.3 million. Under the rental program, North Carolina had a $46.2 million allocation, with Texas next at $44.5 million. Because of the popularity of the program, North Carolina has often drawn beyond its initial allocation. In fiscal 1981, for example, North Carolina had a $126 million allotment for the single-family program but eventually provided loans totaling $175 million. North Carolina gets such large amounts of FmHA money because of the distribution formula, which favors a heavily rural and poor state (see box on page 59). FmHA arranged these loans through 87 local offices working in all 100 counties. The FmHA staff in North Carolina totals 386, all of whom are employees of the U.S. Department of Agriculture.

FmHA in North Carolina has also benefited from having active political support. In 1948, U.S. Rep. Harold D. Cooley of North Carolina sponsored the original FmHA legislation. And from 1975-81, then U.S. Sen. Robert Morgan chaired the Senate's rural housing subcommittee where he functioned as an FmHA proponent. While there has sometimes been political turmoil surrounding the appointment of the N.C. FmHA diector, the housing division has had relatively stable leadership. Thurman Burnette is only the second state housing director, having moved up from deputy. He succeeded James O. "Buck" Buchanan, who joined the agency in the late 1940s and has long been active in the Democratic Party. Buchanan's wife, Barbara, is the personal secretary of N.C. Governor James B. Hunt, Jr.

Despite the successes that FmHA has achieved both in North Carolina and nationwide, the program has come under criticism from several quarters. Some have found FmHA a slow-moving, excessively bureaucratic agency. A year or more can elapse from the application for a loan to the actual occupation of a dwelling. David Raphael, executive director of Rural America, a non-profit organization created in 1967 under the name Rural Housing Alliance, said his members have become "increasingly concerned about the sluggishness, the bureaucratic administration" of FmHA. He said the agency has been largely unresponsive to community organizations and that a "serious reexamining" needs to take place.

A second area of concern lies more with the FmHA as a whole than with the housing division. The U.S. Civil Rights Commission, Legal Services of the Coastal Plain, and black farmers have accused FmHA of discriminating against black-owned farms. "The primary federal agency on which small farmers depend – the Farmers Home Administration – seems to function as a friend for only certain types of farmers," says Frank Adams, a community educator in Gates County. While these groups have leveled their charges (including legal actions) at the farm-loan side of FmHA, not the housing program, the negative effects inevitably spill over to the entire agency. (See "How Can a Farmer Survive Without any Land," *N.C. Insight,* Vol. III, No. 2.)

Asked about FmHA's bureaucratic tendencies – its non-risk-taking style for marginally qualified loan applicants and the discrimination charges – Burnette characterized the N.C. FmHA housing program as "a liberal lender with a firm collection policy." For a liberal program to be successful, Burnette said, "you had better operate it conservatively." Put another way, as a close FmHA observer explains, if there is a bias in FmHA loans, it is a hesitancy to take a risk on economically borderline families, many of whom are black.

Perhaps the most serious criticism – certainly the most threatening – comes from the budget cutters within the Reagan administration. In his proposed fiscal 1983 budget, President Reagan moved to reduce substantially FmHA's role in housing assistance, calling for a 67 percent reduction, from \$4.2 to \$1.4 billion.

"Farmers Home should not be considered as the major housing lender in rural areas," Charles W. Shuman, national FmHA administrator, wrote in a memo to state directors. "This role is adequately being filled by the private banking industry." In a briefing for a group of journalists, U.S. Secretary of Agriculture John Block conveyed the Reagan administration viewpoint far more bluntly: "FmHA has really gotten entirely out of hand. It was throwing money around like confetti. This administration is not going to do that."

Congress rejected Reagan's original budget proposal for 1983, and as of this writing, the level of future FmHA housing appropriations remains unclear. Several budget proposals before Congress would keep FmHA at its 1982 funding level. But a bill pending in the Senate would allow FmHA to provide loans only at unsubsidized market interest rates and would create a new block grant to the states for rural housing assistance.

Even if FmHA withstands the attempt at budget-cutting this year, Raphael of Rural America predicts that Farmers Home will be "increasingly in jeopardy." The uncertain future for FmHA puts Raphael and other advocates of rural development in a bind. While Raphael criticizes how FmHA is administered, he also calls it "the only game in town" for rural housing assistance.

The question, therefore, is whether FmHA will be reformed or restricted. If FmHA's housing assistance is severely restricted, North Carolina, as the largest user of the program in the country, will have the most to lose. □

How FmHA Distributes its Funds

The national Farmers Home Administration distributes subsidized funds for its major single-family, low-income program (the 502 program) according to four factors:

Factor A: state percentage of national rural population;

Factor B: state percentage of national rural population living in substandard dwellings;

Factor C: state percentage of national rural population below the poverty level;

Factor D: average cost indicator for housing in the state.

FmHA uses these four factors to determine the annual allocation for each state through the following formula:

(Factor A x .30 + Factor B x .30 + Factor C x .30 + Factor D x .10) x Funds Available = State Allocation

Some states do not use their entire allocation. These unused funds go into a reserve pool from which other states with active programs, such as North Carolina, draw additional funds. In 1981, for example, North Carolina had a \$126 million allocation but distributed \$175 million, using the reserve pool for the extra funds. The top five allocations in 1981 (in millions) were:

North Carolina	\$125.7
Texas	\$ 94.4
Puerto Rico	\$ 94.1
Georgia	\$ 82.2
Kentucky	\$ 78.5