



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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RESOURCES, COMMUNITY,  
AND ECONOMIC DEVELOPMENT  
DIVISION

June 17, 1983

B-212070



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The Honorable Eugene A. Chappie  
House of Representatives

The Honorable John F. Seiberling  
House of Representatives

Subject: Farmers Home Administration (FmHA) Rural Housing  
Eligibility Procedures (GAO/RCED-83-188)

This report transmits in final form the information provided in our April 26, 1983, briefing on the Farmers Home Administration (FmHA) procedures for determining eligibility of geographic jurisdictions for assistance under rural housing programs. In response to your February 10, 1983, joint request, we examined the eligibility criteria for designating rural areas, the FmHA procedures for reviewing geographic area eligibility, and FmHA practices in monitoring eligibility in four locations. Enclosure I contains more detail on the results of our inquiry, along with an explanation of the objectives, scope, and methodology we followed in performing this review.

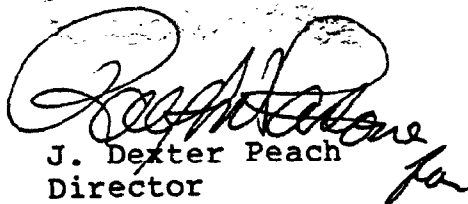
Based upon our examination, the FmHA criteria for defining a rural area and its procedures for monitoring eligibility appear reasonable. The practices followed by FmHA national, state and local officials in each of the four locations we examined were generally consistent with the regulations and procedures. Enclosure II contains fact sheets summarizing our findings in the four areas: Oroville, California; Summit County, Ohio; Jefferson City, Missouri; and Quakertown, Pennsylvania. We found no evidence of major housing need in these areas, except within the Twinsburg Heights subdivision of Summit County, Ohio. Additionally, each of the locations that we reviewed, which were declared ineligible by FmHA, is receiving housing assistance from other Federal, state or local sources. These sources of funding include rental housing assistance payments provided under the Housing and Community Development Act of 1974, Community Development Block Grant (CDBG) funds, Federal Housing Administration (FHA) loans, state housing bond issues, and state weatherization program funds. Further, although the Twinsburg Heights subdivision currently receives little housing assistance, it appears to be eligible for some of the alternative sources of housing aid that are available to Summit County.

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As arranged with your offices, we will make copies of this report available to all interested parties.

  
J. Dexter Peach  
Director

Enclosures

FARMERS HOME ADMINISTRATION  
RURAL HOUSING ELIGIBILITY PROCEDURES

Objectives, Scope and Methodology

Our objective was to examine the procedures used by the FmHA to determine the eligibility of geographic jurisdictions for assistance under rural housing programs. We reviewed legislation, regulations and other FmHA documents and interviewed FmHA national, state and county officials and local government officials to determine the eligibility criteria for geographic jurisdictions and the FmHA procedures for assessing an area's continuing eligibility. We also examined FmHA practices followed in redesignating the following four areas: 1) Summit County, Ohio; 2) Oroville, California; 3) Quakertown, Pennsylvania; and 4) Jefferson City, Missouri. This included reviewing the basis for the redesignation, the area's need for housing assistance, the extent of past reliance on FmHA programs and the degree of disruption caused by the redesignation (see Enclosure II). We performed our review according to generally accepted government audit standards with the exception of obtaining official agency comments. As you requested, we waived this requirement to comply with your timeframe for issuance of this report. However, we discussed the contents of this report with the Acting Assistant Administrator (Housing) and other FmHA officials whose comments have been considered in finalizing this report.

Eligibility Criteria for  
Designating Rural Areas

According to Section 520 of the Housing Act of 1949, as amended, and FmHA instructions, a rural area is defined as:

- (1) Open country which is not part of or associated with an urban area, or
- (2) Any town, village, city or place, including the immediately adjacent densely settled area, which is not part of or associated with an urban area and which:

--has a population not in excess of 10,000 if it is rural in character, or

--has a population between 10,000 and 20,000 and is both outside a standard metropolitan statistical area (SMSA) and has a serious lack of mortgage credit for low- and moderate-income households.

The determination that a location is rural in character as defined by FmHA is made if it is separated from another locality by open space which is undeveloped, agricultural or sparsely settled.

When an area designation is changed from rural to nonrural, applications received prior to the redesignation may be processed. Also, subsequent loans can be made on properties where loans have already been made by FmHA for the purposes of making repairs or to pay equity in connection with a transfer of a loan.

#### FmHA Procedures for Reviewing Geographic Area Eligibility

The FmHA State Directors have the responsibility for determining the eligibility boundary lines for jurisdictions in their state. However, the designation of a location in excess of 10,000 population as rural requires written authorization from the national office. This national authorization is not required when redesignating an area over 10,000 population from rural to nonrural. At the time the four locations included in our review were redesignated, the two major methods used to monitor continuing eligibility were reviewing 1980 census population data and conducting National Assessment Reviews. Additionally, the Office of Inspector General also audits the records used to justify boundary lines.

In April, 1982, the FmHA Administrator issued a notice to clarify the procedures for reviewing the eligibility of rural areas. The notice recommends that FmHA county and district officials review all localities within their jurisdiction annually and report suggested changes to the State Director. The State Director then publishes a notice in local newspapers, informing the public that a six-month study will be conducted to determine if the area is still rural. These instructions, which call for consistent review of eligibility in all jurisdictions and timely notification of interested parties, were not in effect at the time the four locations in our study were redesignated.

In November 1981, the FmHA Administrator instructed all State Directors to assess the eligibility of areas as soon as they received the 1980 census data for their state. Although the states have no requirement to report any changes in eligibility to the national office, the headquarters staff had records of changes from rural to nonrural at 34 locations within 21 states. These changes included one location also reviewed by a National Assessment Team.

Eligibility reviews are also made by National Assessment Teams. Each year these teams visit selected states to review the overall operation of the field offices in administering housing programs. They are made up of members of the Housing Program National Office staff, Rural Housing Chiefs and specialists from a state office rural housing staff other than the one being assessed, and auditors from the Office of Inspector General. The assessment teams examine a variety of problems including eligibility, obligation rates and default rates. The team can

recommend that eligibility be changed because it is questionable. The State Director then performs a review to determine if the area should be redesignated. States are selected for review according to information about problems that come to the national office's attention. However, every state is audited within a 3-1/2 year cycle. The following table summarizes the results of National Assessment Reviews conducted in fiscal years 1981 to 1983.

Table 1

Redesignation of Areas Due to  
National Assessment Reviews

	<u>FY 1981</u>	<u>FY 1982</u>	<u>(FY 1983)</u> (As of March)
Number of assessments conducted	21	19	8
Number of assessments recommending eligibility reviews <u>a/</u>	5	5	2
Number of areas declared ineligible <u>b/</u>	6 <u>c/</u>	3	0

a/As of March, 1983, six of the areas recommended for eligibility reviews in fiscal years 1982 and 1983 are still under investigation.

b/An assessment review could result in more than one area being declared ineligible.

c/These included the four areas we reviewed: Oroville, Summit County, Quakertown, and Jefferson City.

FmHA Practices in  
Monitoring Eligibility

In each of the four locations we examined, the justifications for denying each area's eligibility were generally consistent with FmHA regulations and procedures. In Oroville, Summit County and Quakertown, the basis for the redesignation from rural to nonrural was that the area did not meet the population criteria for a rural area. In Westview Heights, Missouri, the redesignation was due to rapid development which linked the area with an urban area - Jefferson City.

The extent of the need for housing development assistance varied among the four locations. In two areas, Oroville and Jefferson City, it appears that FmHA already has provided substantial aid and little need exists for additional funds.

Quakertown reported some negative impact on financing, although FmHA can still make loans in nearby areas of the county. The Twinsburg Heights subdivision of Summit County, however, is a low-income community which is still in need of housing rehabilitation and development.

In general, the redesignations caused minimal disruptions to the four areas. An official in Oroville believes that FmHA has saturated the area. FmHA officials said that no evidence of major disruption was reported in the Quakertown or Jefferson City areas. Further, all of these areas receive housing aid from other federal, state or local sources. These sources of funding include rental housing assistance payments, Community Development Block Grant funds, FHA loans, State housing bond issues, and state weatherization program funds. However, a local official in the Twinsburg Heights subdivision reported a major negative impact on their housing development due to the withdrawal of FmHA funds and the unlikelihood of obtaining comparable subsidized loan assistance. This impact may be somewhat reduced because the area currently receives CDBG grants for demolition of abandoned houses and it appears to be eligible for other sources of housing assistance available in Summit County. The results of our examination in each of the four locations are discussed further in Enclosure II.

In addition to examining FmHA practices in these four areas, we also contacted FmHA and local officials in four other communities redesignated as a result of the 1980 census data.<sup>1/</sup> Each of these areas currently receives housing assistance from other federal or state sources such as rental housing assistance payments, CDBG housing rehabilitation grants, FHA loans, and state subsidized loans.

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<sup>1/</sup>The four communities are Duncan, Oklahoma; Ruston, Louisiana; Richmond, Kentucky; and Cortland, New York.

FACT SHEETOROVILLE, CALIFORNIABasis for Designation

The Oroville area was declared ineligible for FmHA rural housing funds in September, 1981 because it had a population over 10,000 and was located in a Standard Metropolitan Statistical Area (SMSA). Butte County, where Oroville is located, became an SMSA in July, 1981. On September 2, 1981, a FmHA National Assessment Team visited Oroville and the adjacent communities and recommended that the State Director declare them ineligible. The State Director declared the area ineligible on September 15, 1981 because the "Place of Oroville" exceeded the 10,000 population limitation for SMSAs. <sup>1/</sup>

Need for Housing Development

As of December 1982, FmHA was serving 1,318 rural housing program participants in Oroville. At the time of the redesignation, approximately 150 applications were on file. Most of these applications, which were for a subdivision, "Yynoka Homes", were approved and the development was completed. A FmHA state official said that he believes FmHA has saturated the area and that the current housing need can be satisfied through the sale of repossessed homes and abandoned properties (about 100). He also noted that FmHA can still process subsequent loans through assumptions of current FmHA-financed homes that are for sale.

Alternative Sources  
of Housing Assistance

Oroville currently receives the following types of housing assistance:

- Rental housing assistance payments provided under the Section 8 Existing Housing Payments Program administered by the Department of Housing and Urban Development (HUD),
- Community Development Block Grants - Small Cities Program,
- FHA loans, and
- California Deferred Rehabilitation Loan Program.

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<sup>1/</sup>The total population for the "Place of Oroville," which includes the cities of Oroville, South Oroville, and Thermolito, is 20,891.

FACT SHEETSUMMIT COUNTY, OHIOBasis for Redesignation

Summit County was declared ineligible in November, 1981 because it is within an SMSA and all of its cities and towns were in excess of 10,000 population, either by themselves or in combination with their adjacent communities. The Twinsburg Heights subdivision was declared ineligible because it is located in an area of 3 adjacent communities whose total population exceeds 10,000: Twinsburg City (pop. 7,627), Twinsburg Township (pop. 1,256) and Macedonia City (pop. 6,562).

A National Assessment Team had recommended that the entire county be declared ineligible. A review was conducted in October, 1981 by the District Director who agreed that the area was ineligible, with the exception of Clinton Village. The county supervisor, however, felt that the county should remain eligible because it had experienced a population loss since it was declared a rural area in 1978. The FmHA Acting Assistant Administrator (Housing) said that the area's trend toward urban development and its close association with Cleveland and Akron was not given adequate consideration in the 1978 decision.

Need for Housing Development

The current rural housing caseload in Summit County is 134 outstanding loans. The Twinsburg Heights subdivision received 120 of these loans. A local official in the subdivision said that the development is two-thirds completed. A local official and FmHA county and district officials expressed concern about abandoning this low-income minority project.

Alternative Sources  
of Housing Assistance

Summit County currently receives the following types of housing assistance:

- Rental housing assistance payments provided under the Section 8 Existing Housing Payments Program administered by HUD,
- Community Development Block Grants - Entitlement Cities Program,
- HUD assistance for construction of an elderly and handicapped project,
- State of Ohio Weatherization Program funds, and



--Housing rehabilitation grants for the elderly - provided by the Department of Health and Human Services through the Summit County Agency on Aging.

Twinsburg Heights currently receives housing grants for the demolition of abandoned homes through the CDBG program administered by HUD.

FACT SHEETJEFFERSON CITY, MISSOURIBasis for Redesignation

The Westview Heights area was declared ineligible because of the rapid development that occurred between this subdivision and Jefferson City, an urban area with 34,000 in population. As a result of a National Assessment Team review in September, 1981, the areas in Cole County, west of Jefferson City, were reviewed for FmHA eligibility. The State Director, on the advice of the county supervisor, declared the area ineligible in January, 1982. Although the area declared ineligible has only approximately 5,000 in population and is located outside an SMSA, it does not meet FmHA criteria which states that a rural area must not be part of, or associated with an urban area.

Need for Housing Development

The current rural housing caseload in Westview Heights is 65 outstanding loans. An FmHA county official thought that about 10 applications were on hand at the time Westview Heights was declared ineligible. A FmHA state official said that no evidence of major disruption was reported by the area after it was declared ineligible. Further, the FmHA county supervisor and a local official said that Westview Heights is a new and developing subdivision with very few low-income families.

Alternative Sources  
of Housing Assistance

Westview Heights receives the following types of housing loan assistance:

- FHA and VA loans,
- Federal Home Loan Mortgage Corporation (FHLMC), and
- Missouri Housing Bond Issue subsidized interest loans.

FACT SHEETQUAKERTOWN, PENNSYLVANIABasis for Redesignation

The redesignation of Quakertown was based upon the 1980 preliminary census data which showed that the population in Quakertown and its adjoining communities exceeded 10,000, the limit required for cities in SMSAs. In 1980, a National Assessment Team inquired into Quakertown's eligibility, noting that they believed it was close to the population limit. The 1980 census data, which became available in 1981, showed that the area just exceeded the 10,000 population limit.<sup>2/</sup> In August, 1981, the district and county offices verified the boundaries of eligibility by making a visual inspection. During the inspection, the local officials examined the area for contiguous growth and development of residences and businesses. On October 21, 1981, the State Director declared the area ineligible, effective on January 15, 1982.

Need for Housing Development

The current rural housing caseload in Quakertown is 169 outstanding loans. At the time of the redesignation in October, 1981, eight applications for assistance were on file - of these, 7 were eventually approved. A FmHA state official said that the withdrawal of funds had a negative impact on the availability of financing in Quakertown, but noted that realtors were now looking for homes in other areas of Bucks County that are still eligible for FmHA funds.

Alternative Sources  
of Housing Assistance

The Quakertown area currently receives the following types of housing assistance:

- Community Development Block Grants - Entitlement Cities Program,
- Rental housing assistance payments provided under the Section 8 Existing Housing Payments Program administered by HUD, and
- Bucks County Low-Income Rehabilitation Loan and Grant Program.

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<sup>2/</sup>The population of Quakertown and Richlandtown Boroughs is 10,047. Additionally, the contiguous growth areas surrounding these two boroughs were included, bringing the population further above the 10,000 limit.

In addition, the area is eligible for a Low-Income Weatherization Program sponsored by the Bucks County Antipoverty Agency.