Rural Voices

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HAC
Housing Assistance Council

Owning a Piece of America

ROBIE'S HOUSE
Dear Friends,

A good strategy to building affordable homes is to use methods of building homes that cost less. Although it is a simple and common idea, it takes good planning and careful time management to implement.

Housing Development Specialist Adebola Ajayi’s article, “Robie’s House,” describes one approach to building homes affordably. We see how the use of prepackaged materials and for-profit contractors can lead to the building of a very good affordable house. While reading this article, keep in mind the cooperation between all parties involved. Cooperation truly does open avenues to affordability and doors to homes for families.

In addition this issue celebrates the accomplishments of rural programs in both Texas and Vermont. We also highlight the efforts of our rural housing workshop partner, the Rural Community Assistance Program (RCAP), to empower communities and improve infrastructure. Finally, we have some words to say about the new rules governing the Community Reinvestment Act and some of the changes affecting the Rural Housing Service’s Section 502 Homeownership program.

We hope you will enjoy reading this issue as much as we enjoyed writing it; and as always, we welcome your comments.

Richard Tucker
Chairman, Board of Directors

Moises Loza
Executive Director

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THE VIEW FROM WASHINGTON

New Programs
New Budget

by Joe Belden

In the mid-1990s, it might be thought that it would be impossible to create new affordable housing programs for either urban or rural areas. Yet in recent weeks the Congress has passed and the President has signed into law two bills that do the seemingly impossible. The 1996 farm bill has established a new fund that increases spending for key programs of the Rural Housing Service (formerly the Farmers Home Administration). And a separate measure, the Housing Opportunity Program Extension Act, has created a guaranteed loan program for rural rental housing and a new small pool of funds for self-help housing.

The farm bill

After years of gestation and months of debate, Congress in March completed work on a major farm program reauthorization bill (H.R. 2854). President Clinton signed the bill in early April. The Federal Agriculture Improvement and Reform Act of 1996 radically alters the farm price support system that has been on the books since the New Deal. This was the big news, but the bill also deals with many other issues and programs under the jurisdiction of the U.S. Department of Agriculture. There are titles on trade, conservation, nutrition aid, agricultural promotion, farm credit, rural development, and research and extension.

Part of the farm bill’s provisions on rural development affect housing. A new $300 million, three-year Fund for Rural America was created with a transfer of some commodity program dollars. The Fund is divided into thirds — one-third for rural development programs, one-third for agricultural research, and one-third for either or both. Programs eligible for this money include the Rural Housing Service’s Sections 502 direct homeownership loans, 514/516 farm labor housing, 521 rental assistance, 523 self-help grants, and 533 housing preservation grants. Also eligible for shares of the new funds would be USDA rural water and wastewater programs, the Intermediary Relending Program, and several rural business development programs. Housing almost lost its place in this alignment.
but survived Congressional debate. A stipulation passed as part of the final conference agreement on the bill was that housing may receive no more than 20 percent of the funding.

The farm bill also included a new Rural Community Advancement Program (RCAP), establishing three funding streams for rural programs. Housing is not a part of the RCAP.

**The Housing Opportunity bill**

Another recent major development is enactment of the Housing Opportunity Program Extension Act (S. 1491). Congressional completion of this legislation came in mid-March, and the President’s signature sealed the deal later in the month. Passed with little debate, this bill reauthorizes the Section 515 rural rental program, creates a new Section 515 guaranteed loan program, and provides new funds for Habitat for Humanity and other self-help housing organizations. The final bill creates a grant fund of $40 million to support land acquisitions and infrastructure improvements in projects carried out by Habitat and other self-help housing organizations. The new law provides $25 million for Habitat and $15 million for other self-help housing groups. In addition there is separate funding of $10 million for the National Community Development Initiative (an urban program) and $10 million for the HUD cities-in-schools program.

While not restricted to rural work, the $15 million pool could be a resource for RHS-supported and other rural self-help housing providers. The law says that this pool is for “other national or regional organizations or consortia that have experience in providing or facilitating self-help housing homeownership opportunities.”

**1997 budget proposals**

In mid-March the Clinton Administration unveiled its fiscal 1997 budget proposals. Rural Housing Service programs would receive a boost of over $1 billion, from $3.5 billion in 1996 to $4.6 billion in 1997. But $700 million of the increase would be in Section 502 guaranteed single-family loans. The 502 direct loan program would get an increase of $304 million. Other hikes in spending would be for Section 515 rental (from $152 to $220 million) and Section 523 self-help grants (from $13 to $26 million).

HUD programs would get a 1997 budget of $21.7 billion. HOME and CDBG would rise above their 1996 levels through the addition of new funds in “bonus pools” for superior performance. HOME for 1997 would get $1.55 billion and CDBG $4.9 billion.

HUD for 1996 continues to operate under short-term continuing resolutions. The Department will probably end up with full-year 1996 budget authority of $20.3 billion. USDA’s appropriations bill was enacted last fall on time, so rural housing programs are funded and operating on a year-long basis.

Joe Belden is the Deputy Executive Director of the Housing Assistance Council.

In the mid-1990s, it might be thought that it would be impossible to create new affordable housing programs for either urban or rural areas. Yet in recent weeks the Congress has passed and the President has signed into law two bills that do the seemingly impossible.
For a developer new to low-income housing construction lack of a simple design and affordable materials can sometimes be barriers to success. One way of scaling this obstacle may be to adopt prepackaged building kits. This is the story of how such a plan was used to bring an affordable home to an expensive market. 

Robie is a single mother of two. Like many other Americans, she is a high school graduate and has always been gainfully employed. She is a United States government supply clerk with an annual income under $20,000. She represents one of the fastest growing segments of the U.S. population, earning less than $25,000 a year, which is less than 50 percent of the median income in many counties in Maryland, where Robie lives. 

Part of Robie’s housing problem developed when her first daughter turned sixteen. The family lived in a two-bedroom apartment that accepted Section 8 vouchers. The older daughter needed a little privacy from her younger sister. Robie wanted a three-bedroom apartment but Section 8 regulations would not allow the relocation because the children were of the same sex and could share. Moving into a three-bedroom apartment without a Section 8 subsidy would require Robie to pay $184 more per month for housing. This was beyond her means. Her monthly rent of $534 and utilities of more than $100 were supplemented by a Section 8 subsidy of $34. This amounted to a public subsidy of $408 per year. 

To compound her problem, the county took a child support payment from Robie’s ex-spouse into account when determining her level of assistance. Unfortunately the monthly child-support payments never materialized. The county was aware of the nonpayment of the child support but still considered it as a source of income. Robie did not like taking advantage of government assistance. She felt humiliated by the yearly reassessment of her Section 8 subsidy. She elected not to seek government assistance for her new house. 

How Robie went from being a renter of a two-bedroom subsidized apartment to being the owner of a three-bedroom house is not an impossible journey for other families with low incomes. Robie became a homeowner paying $503 per month, less than what it cost her to rent a small apartment. Robie’s background and dilemmas presented an excellent opportunity to test some unconventional ideas in the production of affordable housing. Anne Arundel County is a suburb of Washington, DC, and Baltimore, but many of the techniques used to complete this house can apply to rural nonprofit developers. As a Housing Development Specialist at the Housing Assistance Council, I know that the assistance rendered by community-based organizations continues to influence the production of affordable housing for the less fortunate members of the community. Although I have been privy to numerous projects this one is especially close to me. Robie is my sister-in-law.

Owning a house is the realization of a dream for Robie. Like many she is too poor to realize her dream of homeownership without active intervention from others. In Robie’s case a local church,
members of her family, a friendly local bank and for-profit contractors helped her make the transition from renter to homeowner.

Through her church and family, Robie was able to secure a small lot with an existing, abandoned house for only $5,000. This was far below the market price in her area. The lack of available low-cost land is almost always a barrier to the production of affordable housing throughout the country, but in rural areas land can usually be acquired at more affordable prices. Land cost and site-related expenses, however, are a key issue. By electing to rehabilitate an abandoned house, Robie saved more than $2,945 in school and transportation impact fees that are charged to new units in Anne Arundel County. Impact and utility connection fees account for 5 percent of the total construction cost of affordable single-family homes in the county. In this instance there was no need to pay for water connections, which would have cost an additional $4,000. The only infrastructure cost paid by Robie was $2,850 for septic tank installation. This cost could have been avoided if the county had invested in a public sewage disposal system for the area.

Making a buildable lot available to low-income housing should be a high priority for any county, since this tier of government will invariably reap the highest benefit from such an investment. The availability of houses provides a tax base for the maintenance of local government. In the absence of government participation in land development, the nonprofit sector might be the alternative for developing lots and community infrastructure because many such groups do not charge for overhead or profit. Nonprofit organizations also have a development advantage because they are able to receive donated services more easily and offer tax incentives instead of cash to service providers and land owners.

The lessons to be learned here are about the construction and financing methods for Robie's new home. I decided to act as the manager for the project because this provided an excellent opportunity to test my concepts on developing affordable housing. As the project manager I planned all the financial and construction aspects including designing a floor plan, selecting and buying building materials, providing financial consultation, choosing and negotiating a lump sum contract with a general contractor, and choosing and negotiating lump sum contracts with all the subcontractors. Doing these things on my own helped keep costs down and is a role many nonprofit developers can play.

I designed the home to be affordable. By affordable design I mean a simple design that eliminates wasted space and intricate construction. In Robie's housing market $65 is the cost per square foot of a modest house. Robie qualified for a mortgage loan of up to $67,500 at 7 percent interest. Subtracting the financial charges and land costs from the mortgage amount, Robie was able to afford a house that could not exceed $50,000 in construction cost. At $65 per square foot, the house could not exceed 770 square feet. The design allowed only 10 percent of the floor space to be used for circulation (the area used to get from one point of the house to the other, i.e., halls and stairs).

My basic concept was to use prepackaged materials. I decided to use a design envelope, pre-cut materials that make up an outer shell, which can be purchased at chain lumber yards. The shell came with vinyl siding, an asphalt shingle roof on half-inch plywood, two garage doors, a window, and a door. The rest of the supplies were also bought at the same lumber yard. Buying materials in bulk from the lumber yard not only helps save steps (material is usually bought by the general contractor), but saves money, too. The savings obtained from utilizing the existing foundation were used to increase the house to 840 square feet.

My duty as project manager also meant serving as Robie's financial consultant. Her divorce had left her with some disputed and unpaid bills. While most financial institutions may understand that the breakup of a marriage may produce a blemished credit rating, they are still hesitant to invest in individuals in such financial situations.
In my role as project manager I provided Robie with housing finance advice, and as a concerned family member I also provided a $3,000 loan to fund the activities leading to the issuance of a building permit for the project. The $3,000 is less than 5 percent of the total project cost, but pivotal to the rest of the project. A bank will not fund a project without a building permit, and a building permit will not be issued without the necessary construction documents and tests as required by the county.

A good relationship with a small local bank was essential to developing this house. The bank’s size provided for a closer relationship with clients. Robie was able to cultivate a good relationship with one of the loan officers at Severn Bank in Annapolis, who subsequently went out of her way to assist Robie in securing a construction loan. The loan officer helped Robie for two years, counseling her while reducing her debt, formulating a budget, and figuring out her net worth. It took one year of careful case management, but in the end Robie got her loan. The bank officer was willing to provide the extra measure of care needed to help Robie qualify for a loan.

It is recognized that timely delivery of a project is a cost cutting factor, and profit is indeed an incentive for timely performance. A project as small as Robie’s house has a small profit margin. The contractor for the project needs to finish the project in an eight-week period to make a reasonable profit. The framing contractor was selected to act as the general contractor for the project. The contractor’s assignment was specifically to deliver the project cost on budget within eight weeks. In return he was guaranteed a $6,500 profit and overhead allowance. Purposefully using the services of for-profit contractors allows for a realistic estimate of project cost and insures that this arrangement could be duplicated. None of the construction or material was donated.

The general contractor also coordinated the time periods when the subcontractors were to do their work. Although I selected the subcontractors and negotiated their contracts, the general contractor acted as the onsite manager.

We began building in the first week of November and Robie moved into her new home within four months, despite two weeks of adverse weather. The actual construction cost was a little over $50,000 and the land was obtained at a discounted price of $5,000. Fees and financing of $12,250 brought the total balance for the project to $67,250. The associated financial fees could have been reduced if government subsidies had been used to fund the construction. Robie is now paying $503 per month for principal, interest, taxes, and insurance.

Affordability means different things to different people. For our purpose, an affordable house is a safe, sanitary dwelling with a built-in long-term value. Built-in long term value means creating savings for the occupant by using the highest quality materials to eliminate capital improvement during the initial five years of occupancy. Robie’s house is a compact 864-square-foot three-bedroom house. The rooms are modest, with a minimum bedroom size of 112 square feet, dining room of 108 square feet, and living room of 168 square feet. The kitchen is 65 square feet and is fully equipped with a refrigerator, stove and dishwasher. Her new house is fully air conditioned, which is not standard in Maryland for state subsidized affordable homes. It is adequately insulated with inside and outside wraps (waterproof membranes). In addition, the house is equipped with a washer and dryer. This was done at a cost of $62,500. This must be put into perspective, since Severna Park, Maryland, is one of the highest priced markets in the nation. It is a community where the average house sells for twice as much.

Robie’s house was built by a partnership of a nonprofit project manager (me) and for-profit contractor. Nonprofit developers can save money building affordable houses using the same models of organization and design. But most importantly Robie’s daughters have their own rooms and Robie finally has a place she can call her own.

Adebola Ajayi is a Housing Development Specialist with the Housing Assistance Council.
A MODEST DREAM HOUSE

Making Homeownership Viable for the Poorest of the Poor

by Leslie Newman

Proyecto Azteca, a nonprofit housing development organization based in San Juan, Texas, is providing the opportunity for people like Mr. Cazares, whose family has an annual income of $5,075, to build their own quality homes. Proyecto Azteca is reaching families at the bottom rung of the economic ladder, families with annual incomes that not only put them outside the traditional homeownership market, but disqualify them from most housing assistance programs.

Created in 1991, Proyecto Azteca provides housing assistance for families living in colonias, some of the poorest communities in the United States. At the center of its work is its self-help new construction program, through which very low-income families (income levels range from $4,500 to $13,500) come together to build their own safe, decent, and affordable housing. Since the first year of operations, Proyecto Azteca families have completed 60 homes, and an additional eight homes are currently under construction. This is an examination of the design of this successful program, how it operates, and the factors that contribute to its success.

Directed and controlled by a 13-member Board of Directors comprised of farmworkers and colonia residents, Proyecto Azteca’s self-help program is based on the needs, realities, and strengths of families living in colonias.
Housing needs are immediately apparent when one drives through the colonias — rural, unincorporated subdivisions located along the U.S./Mexico border. Conditions in these communities are often compared to those of developing countries, with families living in “shanties” or “ramshackle dwellings.” According to an October 1995 Texas Water Development Board Survey, there are approximately 1,481 colonias in Texas. Over 50 percent of them are in Hidalgo County, Proyecto Azteca’s target area.

Economic necessity and the dream of owning a piece of land are the factors that drive many low-income, migrant farmworker families to live in colonias. Very low income levels exclude these families from traditional rental and homeownership markets. Most families purchase their colonia lot under a “contract for deed,” often paying exorbitant interest rates (14-16 percent), with no equity in the property until they have paid off the entire balance. With a significant portion of their income going towards lot payments, unable to afford quality tools or materials, and having little prior construction experience, most families in colonias build makeshift structures over extended periods of time, using a variety of salvaged materials.

Proyecto Azteca’s self-help program capitalizes on the resourcefulness, determination, and willingness of colonia residents to help themselves in building their homes. At the same time, the program provides important assistance that individual families often lack in building their own home, which can make the difference between a “shanty” and a safe, comfortable home.

Through Proyecto Azteca’s self-help program, experienced trainers teach and supervise construction crews of participating families. The organization currently employs three trainers, all of whom originally worked as participants in the program, building their own homes. At least one member of each participating family (male or female) is required to work in a Proyecto Azteca construction crew on a full-time basis until all of the crew members’ homes are completed (approximately 15 weeks). The majority of construction work takes place on Proyecto Azteca’s building site, which facilitates the distribution of bulk materials, sharing of tools, and cooperation between families. Proyecto Azteca homes are 816 square foot, three-bedroom, wood frame houses.

Beyond the opportunity to build their own home, the financial assistance that Proyecto Azteca secures for families is critical. After paying off any remaining balance on families’ colonia lots, the organization arranges an interest-free mortgage to cover the cost of construction (approximately $15,000) and the balance paid on the colonia lot (up to $6,000); monthly payments range from $50 to $100 over a 20-year term. Families obtain a warranty deed to the property in their name, with the opportunity to build equity in the property previously unavailable under the original contract for deed. Since the creation of Proyecto Azteca in 1991, the majority of construction work and mortgage assistance has been funded by HUD’s federal HOME program, which is administered at the county level, and the Texas Department of Housing and Community Affairs’ Single-Family and Housing Trust Fund programs.

The success of Proyecto Azteca’s self-help housing program may be attributed to a number of factors:

- **Community control:**
  The program was designed by migrant farmworkers and colonia residents — the people most familiar with the problems and needs in colonias, and the ways the self-help program should be tailored to meet these needs. The Board of Directors, comprised entirely of farmworkers and colonia...
residents, for example, designed the prototype home with the assistance of volunteer architects. Based on criteria which it developed, the Board’s “Selection Committee” selects all participating families.

### A Program Based on the Needs and Realities of Participants:

Closely linked to community control is the way in which Proyecto Azteca has worked to tailor the self-help housing program to the needs and realities of colonia families. As most participants are monolingual Spanish speakers, for example, all Proyecto Azteca program staff are bilingual, and all written communication to families is in Spanish. The program’s mortgage payment collection services recognize that many participants are migrant farmworkers, who often work in northern states for the summer months. While the program does not “forgive” payments, it does permit families to arrange large payments upon their return to South Texas.

### A Comprehensive Approach:

Proyecto Azteca’s comprehensive approach also contributes to its success. Rather than simply focusing on housing construction, for example, Proyecto Azteca realizes that improving housing conditions in colonias often necessitates financial assistance to ensure that families can afford their new home, and contract for deed refinancing.

### A Self-Help Approach:

The “sweat equity” that participants contribute in building their own homes is a critical factor in making homeownership possible, and Proyecto Azteca’s ability to assist families with income levels that most housing or lending programs will not consider. Having built their own houses, Proyecto Azteca families have tremendous pride in their homes. The homes are well-maintained, and have become a “dream come true” for families as they plant lawns and trees, and build additional rooms, carports, and porches.

### A Belief in the Creditworthiness of Low-Income Families:

Proyecto Azteca’s belief in colonia residents and farmworkers, and willingness to act on that belief, also plays an important role in the success of the program. In the words of Proyecto Azteca’s Director, Jesus Limon, “You have to be willing to take a chance with these folks. But once you do, you realize it’s not really a risk at all.” With Proyecto Azteca behind them, only a very small fraction of participating families are not current on their mortgage payments, disproving many misconceptions about low-income people, as they build, maintain, and pay for quality homes that all families deserve.

Proyecto Azteca has developed a model self-help housing program which community-based organizations in colonias along the Texas/Mexico border are beginning to emulate. Yet, beyond the border, Proyecto Azteca, with the unique features that contribute to its success, can serve as a model for housing development organizations around the country as they implement programs to assist very low-income communities.

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10 For a more detailed discussion of the “colonia real estate system,” please see the article in the Winter 1996 issue of Rural Voices, entitled “Money, Bankruptcy, and El Cenizo: A Solution for the Colonias.”
One of the most successful statewide systems of rural affordable housing development can be found in Vermont. This system emphasizes small scale development projects tailored to local needs, development by nonprofit organizations, and mechanisms to promote perpetual affordability. The key players include a network of 12 regionally based nonprofit development organizations and several statewide nonprofit organizations with a special emphasis on housing cooperatives, mobile home parks, or the utilization of Low Income Housing Tax Credit and Historic Rehabilitation Tax Credit programs.

Given that Vermont is a small rural state, the accomplishments of this delivery system are prodigious. Approximately 5,000 affordable units have been developed over the last 10 years — considerable for a state with a population of 580,000 people. Vermont is typically a national leader in its early allocation and use of HOME funds, the Low Income Housing Tax Credit, and Rural Development funds.

Like those of other states, Vermont’s budget revenues have fallen in recent years, leading to sharp debate on public spending priorities. While there have been serious challenges to Vermont’s housing system and some downscaling of the state’s support for affordable housing development, a significant level of support and funding has been maintained. In no small part, the survival and the success of this system has been due to its ability to tailor affordable housing development to the specific needs and interests of communities throughout the state. Most affordable housing development is recognized as bringing multiple benefits to communities where it is developed.

Vermont’s affordable housing delivery system is an outgrowth of and response to the development pressures that impacted the state throughout the 1980s. Fueled by the growth of the state’s population and a burgeoning second home market, land and housing costs increased steadily and in some regions dramatically during the decade. For most lower income Vermonters, housing costs far outstripped increases in income from low-wage employment and transfer payment programs.

Several important legislative initiatives emerged during this period in response to increasing land costs,
especially the Vermont Housing and Conservation Fund, which was created by the State Legislature in 1987 through the efforts of a coalition of affordable housing and land conservation organizations. The Vermont Housing and Conservation Board (VHCB), which makes awards from the Fund, has become the lead funding agency for both affordable housing and conservation projects (farmland, natural areas, and recreation) as well as operating grants for nonprofit organizations developing those projects. VHCB also administers the federally funded HOME program.

Since 1987, VHCB has made 253 grants for the development of approximately 4,000 affordable housing units representing a variety of housing types including multifamily rental, mobile home parks, housing for persons with special needs, and single-family homeownership. Most of these projects are of small scale and involve the acquisition and rehabilitation of existing buildings or mobile home parks. During this period, VHCB has also provided funds to permanently protect nearly 100,000 acres of agricultural land, natural areas and recreational lands.

To achieve affordable rent or homeownership costs without providing ongoing operating subsidies, VHCB gives up-front capital grants in return for perpetual deed restrictions controlling the use and affordability of assisted projects. This emphasis on the stewardship of affordable housing resources is reflected in Vermont’s Consolidated Housing Plan which considers the goal of perpetually affordable housing to be the over-arching principle of its housing priorities.

Most Vermont development projects involve a number of financing sources. Other important state financing sources for affordable housing include the Vermont Housing Financing Agency, which allocates the Low Income Housing Tax Credit, provides project debt financing and below market-rate home mortgages; the Vermont Community Development Program which administers a state-wide “block grant” program; and the Vermont Community Loan Fund.

Vermont’s regionally based nonprofit housing organizations serve one or more counties and are complemented in a few more heavily populated areas by local nonprofit development groups. Depending on the project type, a regional nonprofit may partner with a statewide organization — most often for the purpose of obtaining tax credit equity. While the impetus for development projects may be generated by town officials, service organizations, local residents or mobile home park tenants, it is the purpose of the nonprofit to determine project feasibility and put together the development project.

Many of the regional nonprofits are organized as Community Land Trusts (CLTs). CLTs have a distinctive approach to ownership of real estate and governance structure. When a CLT acquires real estate, it intends to hold the land permanently “in trust” for the benefit of the community. However, improvements on the land may be owned by individuals or groups within the community, who lease the land from the CLT.

Other Vermont nonprofit development groups, although not CLTs, typically have a commitment to perpetual affordability and long-term stewardship of housing resources. Nearly all of these organizations have a board structure that is intended to be representative of the region’s residents.

Organized in 1988, the Rockingham Area Community Land Trust (RACLT) is typical of Vermont’s nonprofit groups. Their working areas are portions of two counties in southeastern Vermont. Although rural in character, this area is mixed in terms of development. There are a few larger population centers that previously were manufacturing centers, many small villages and some ski area “tourist” development. In the last 20 years this area has seen an upsurge in housing costs while losing its traditional manufacturing base and highest paying jobs.

Although RACLT’s development work has been concentrated in the region’s population centers, Springfield and Bellows, the organization has worked hard to address housing and community development needs throughout the region, developing housing projects in 12 of the region’s 20 towns. Its varied portfolio of
housing projects and activities includes 104 multifamily rental units in 25 buildings, a 12-lot mobile home park, a 10-bed youth teen shelter and a family resource center used by several service organizations. RACLT has also assisted 31 households purchase homes throughout the region. The organization holds resale restrictions on these homes to promote on-going affordability through its ownership of land beneath the homes. In three towns, RACLT operates a housing rehabilitation program for owner-occupied homes.

A current development project in Cavendish (population 1,323) is representative of many of the development projects undertaken by RACLT and other regional nonprofit housing organizations in Vermont. At the request of and in close cooperation with town officials, RACLT will relocate an historic 18th century farmhouse to the village center. The rehabilitated structure will be developed as five units of elderly housing and serve as a major element in the redevelopment of the Cavendish village center.

The service area of the Gilman Housing Trust is the most rural of any of Vermont’s housing nonprofits. It consists of three northeastern counties known in Vermont as the “Northeast Kingdom.” This is a heavily forested and agricultural region with a combined population of 58,304 persons in 1990. The largest town, St. Johnsbury, has a population of about 8,000.

Despite relatively low housing costs compared to the state as a whole, housing affordability is a crucial problem for many households because of a sluggish regional economy and the lack of well-paying jobs. Furthermore, affordability problems are compounded by the poor condition of the housing stock in the region, particularly rental housing. Over half of the region’s housing is over 50 years old. Much of the rental housing in the area is in rundown condition, is energy inefficient, and has lead paint hazards.

To address these housing issues, Gilman’s development strategy has focused on the acquisition and rehabilitation of existing rental properties in the region’s population centers and villages. Since 1985, Gilman has developed and manages 96 rental units in 19 buildings. These rental properties are located in towns throughout the region.

The properties selected for development are often historic or in key locations in a community’s commercial or older neighborhood areas. This type of affordable housing project has multiple benefits and typically engenders strong support from the community. It provides good quality rental housing while making the community look more attractive. Indirectly, these projects work to help sustain the economic and social fabric of Vermont’s traditional development pattern.

To address the needs of lower income households who seek to purchase a home, Gilman has recently been designated a “Home Ownership Center” by the Vermont Housing Finance Agency and a member of the Neighborworks Network of the Neighborhood Reinvestment Corporation. Within this focus, the organization will provide homeownership counseling, second mortgage financing, and rehabilitation supervision to assist potential and existing homeowners. In a region with predominantly single-family housing stock and ownership tenure, this focus makes sense.

While the scale of development undertaken by Vermont’s nonprofits may be the most appropriate for Vermont communities, it is unclear if it will be sufficient to sustain development organizations over the long term. As federal and state resources decrease, Vermont nonprofits are exploring ways to diversify their operations, and in some cases, consolidate their activities.

Despite the pressure of change, Vermont’s regional system will continue in some form to address the state’s housing needs and spread the benefits of affordable housing development throughout this rural state. This delivery system has become recognized as an important development tool by communities seeking to remain vital and competitive, and it cannot be overlooked in this age of dwindling public resources.

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BEYOND WATER AND SEWER:
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It's 7:00 a.m., time for the day to begin. The kids go off to school. The chores start. Another ordinary day. Except that you have to go outside to pump water, and there is a good chance that drinking it will make you sick.

Today 1.1 million rural Americans are living in homes that lack complete indoor plumbing. Many more people live in communities that have failing or inadequate water and wastewater systems. Many such systems are out of compliance with the water and wastewater regulations set by the U.S. Environmental Protection Agency to maintain the health and well-being of residents.

Sometimes, residents are unaware that the water they are drinking is contaminated, or that dumping their waste into the stream running through the backyard poses health risks for their neighbors downstream. More often, though, residents are acutely aware that their community is facing problems that need to be addressed — they just do not know what to do. Rural communities with water and/or wastewater related needs are often in isolated, low-income areas that lack access to the resources needed to resolve these problems.

For the past 25 years, many communities have turned to the Rural Community Assistance Program (RCAP) for help. RCAP provides onsite, technical assistance to rural people to address drinking water supply, wastewater treatment, solid waste disposal, and other related rural development issues. Through a national network of technical assistance providers, RCAP works with community residents and local elected officials to develop and implement practical, affordable solutions, while building community capacity and developing community leadership in the process.

One such community is New Road, located in Northampton County, on Virginia's Eastern Shore. Northampton is the poorest county in the Commonwealth of Virginia. It has the lowest median household income in the state, and more than 26 percent of the population lives below the poverty line.

The unique pristine coastal and tidal habitat of this region poses constraints to both individual families and communities for system improvement. While salt water is abundant, drinking water, which is drawn from groundwater, is in short supply. Sandy soils and high water tables make a high percentage of the county's land base unsuitable for traditional wastewater treatment and development. Over 12 percent of housing in Northampton lacks complete indoor plumbing. Many of the homes rely on pit privies and shallow pitcher pump wells.

In 1995, Northampton County was designated a Rural Enterprise Community under the EZ/EC program. Working with the community and other partners, RCAP helped the community complete its successful EZ/EC application to begin the area's revitalization. In coordination with local government agencies, community leaders and residents, RCAP is helping the New Road community develop a comprehensive strategic plan to address a variety of community needs, including housing, water and wastewater system improvement, and a community health initiative. This will be used as a model for other communities with similar problems in the county. According to resident Ruth Wise, "We want to be an example of what communities can do for themselves."

RCAP believes in taking a holistic approach toward community problem solving. RCAP staff are often invited into a community to solve a water or wastewater problem, but many times the situation is more complex. Communities not only need technical assistance on specific needs, but often residents need to learn skills that can be transferred to solving a wide range of issues facing the community. Thus, the process is as important as the outcome. When RCAP assists a community, staff may help organize the residents of the community to solve a particular technical problem; however, the ultimate goal is to leave the residents with much more than a technical solution.

Through the technical assistance process, community residents develop the capacity to take control of their community's future, a power that extends beyond water and sewer issues. Residents learn to apply the capacity building process to other pressing needs in the community. This is in keeping with RCAP's mission to empower and assist residents and elected officials in small, rural communities.
communities to improve their quality of life.

In New Road, for instance, rental home residents formed a citizen's group to demand a public sewer system. They soon realized, however, that a sewer system would benefit landlords by increasing property values, which could, in turn, displace tenants from their homes. This led residents to initiate a strategic planning process, in which the community, with RCAP's help, set priorities for community development and formulated strategies for community improvement. As a result of this process, not only are water and sewer infrastructure needs being addressed, but New Road has started a housing rehabilitation project, and a community health initiative, as well.

The capacity building process is also evident in the approach taken in Jezebel, Mississippi, another community RCAP assists. Jezebel is in the Mississippi Delta region, on what was once a cotton plantation in Tunica County. This African-American community of 45 families cannot afford a sound sewer system, and has a severe wastewater disposal problem. Some homes discharge raw sewage directly into open ditches in the streets, where children play. Waterborne disease is a constant threat in the community.

RCAP is working to help Jezebel get the wastewater treatment it needs. RCAP technical assistance providers worked extensively with community leaders to assist them with the process of completing a project design for an affordable facility, to coordinate project activities with local and state agencies, and to identify and secure funding so the project could be implemented. With RCAP's assistance, Jezebel was awarded a Community Development Block Grant (CDBG) of $575,700 to install a wastewater treatment facility. In the process, RCAP field staff met with community residents and leaders to train them on operating and managing a viable system.

Every American deserves the opportunity to live in a home with running water, a working toilet, and a bath or shower. Every home in a community must be connected to safe, affordable water and wastewater treatment to ensure the health, safety and quality of life of residents. In Jezebel, New Road and hundreds of rural communities throughout the United States, residents are working, with the help of organizations like RCAP, to secure access to basic water and wastewater services that the rest of the nation takes for granted. In the process, residents are learning to take charge of community development, to make their environments better for the future.

Tracy Weber is the Program Manager for the National Rural Community Assistance Program.

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703-771-8636
New Community Reinvestment Act Regulation May Require More Work
by Leslie R. Strauss

On January 1 this year, a new regulation began to take effect governing evaluations of banks and savings and loan institutions under the Community Reinvestment Act (CRA). While the new rule will not be fully effective until July 1, 1997, among the provisions already implemented are those governing so-called “small” lenders, including the vast majority of lenders in rural areas. It is too early to gauge the impact of these new provisions with any certainty. While they provide some new ways for local people to have input into the CRA review process, they may also put a greater burden on communities to ensure that CRA examinations take their perspectives into account.

The Community Reinvestment Act, first adopted in 1977, requires federally insured lenders (banks and savings and loans, but not mortgage banks or credit unions) to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operation. A lender’s community (called an “assessment area” in the new regulation) is, in essence, simply the community it tells federal regulators it intends to serve. CRA applies to small business and small farm lending as well as to housing. Federal regulators evaluate lenders periodically under CRA, and rate their performance as outstanding, satisfactory, needs to improve, or unsatisfactory. The vast majority of institutions receive satisfactory ratings.

Both lenders and community groups had complaints about the regulations previously used by the four federal agencies that enforce CRA, focusing largely on concerns that lender documentation of attempts to comply with CRA received more weight than actual lending did. After a lengthy process including publication of two draft regulations, in May 1995 the regulatory agencies issued a new rule making a number of changes in the oversight process. The new regulation is intended to emphasize lender performance rather than process.

Among the significant changes included in the new regulation is one that could profoundly influence the impact of CRA in rural areas. A new “streamlined” process has been created for evaluating “small” lenders. Under this process, regulators will examine different factors than for larger lenders. “Small” lenders are defined as independent lenders with total assets under $250 million, or lenders below that asset threshold and owned by holding companies with total assets under $1 billion. In nonmetropolitan areas, 97 percent of federally insured banks fall under the $250 million threshold, compared to 79 percent in metro areas.

When the standards for large institutions become effective on July 1, 1997, large lenders will be scrutinized in three distinct categories. Regulators will look separately at their lending, service, and investment performance in the areas where they do business, and they will be required to provide new data on each of these topics. (Until July 1997, large lenders will be evaluated under the old CRA regulations unless they choose to have the new tests applied sooner and provide the needed data.) As of January 1, 1996, on the other hand, a “small” lender will receive a satisfactory CRA rating if it meets a list of relatively vague tests:
- has a reasonable loan to deposit ratio;
- makes a majority of its loans in its assessment area;
- has a reasonable distribution of loans across income levels and business sizes;
- takes appropriate action in response to CRA-related written complaints; and
- has a reasonable geographic distribution of loans in its assessment area.

A small lender may also choose to be evaluated under the lending, investment, and service tests that apply to large lenders, though there is little incentive to do so, particularly since those tests require the lender to prepare more detailed data. Also, a lender of any size may choose to be evaluated under a strategic plan. The lender develops the plan, which must include measurable performance goals, and the lender’s regulator must approve it. Then the lender’s CRA rating will be based on how well it meets the goals established in the plan.

What will this new process mean in practical terms? The first step for community groups wishing to get involved is to take advantage of a major improvement instituted by the new regulations. The four federal regulatory agencies now make available, in advance, a list of CRA examinations scheduled for each calendar quarter. To receive these notices, one must contact each of the four separately (see box) to be
Preparing for a specific upcoming examination lists, and contact the regulators that are scheduled to be reviewed. Preparing for a specific upcoming examination could provide a good organizing tool, suggests Jerry Reynolds, who follows CRA issues for the First Nations Development Institute in Fredericksburg, Virginia. In addition, says Debby Warren of the Southern Rural Development Initiative, it enables community groups to focus their limited resources for maximum effectiveness.

Providing information to the regulatory examiners was possible under the old CRA regulation as well, but it is likely to be much more important under the new rule. One of the goals of the new regulation is to reduce the paperwork required for lending institutions, particularly small lenders, so the examiners are now responsible for compiling crucial information about community credit needs and each lender’s performance. Since an examiner may spend two or three days at a bank or thrift, examining compliance with numerous requirements besides CRA, he or she is likely to rely heavily on CRA-related information provided by others. There are reports already of “drive-by exams,” says CRA expert Allen Fishbein of the Center for Community Change. In some small lender exams performed since January, where examiners reviewing small lenders have seen no comments or complaints by community residents, they have assumed there are no problems.

This means that rural residents have a new responsibility they did not ask for, Fishbein points out. In order to make sure their perspective is considered in the CRA evaluation process, they must take responsibility for putting their perspective into the record.

Regulatory agency staff generally advise that the best way to raise a CRA issue is to meet with the bank or S&L in a constructive atmosphere, before a CRA examination is scheduled. Memorialize any agreement, or any unresolved concern, in a written letter to the lender, with a copy sent to the regulator. Writing has several results. First, lenders must keep public files, available for review upon request, that include a variety of CRA-related information including all relevant written comments; thus, other members of the public can learn from this correspondence. Second, written comments can inform examiners about issues they should check when they conduct CRA examinations.

Finally, the regulation requires a small institution’s evaluation to take into account whether the lender has taken appropriate action, “if warranted,” in response to written comments. While parties might disagree on what action is warranted, this requirement does give lenders a strong incentive to respond.

If a lender does not take a complaint seriously, and the examiner later decides it should have, then the examiner may go beyond the factors specified for the “streamlined” evaluation, and may conduct a more detailed inquiry into the lender’s activities. This is most likely to happen, states Bert Otto, who oversees compliance for the Office of the Comptroller of the Currency, if a complaint presents quantifiable data about community credit needs that the lender is not meeting. He cannot specify a threshold amount of data that would be needed in such a situation, he says, but the more the better. A complaint must also take into account the “performance context” within which the lender operates, such as what other lenders are doing in the area, what resources this lender has, and the like.

In some rural areas, of course, challenging the status quo by raising CRA issues with a lender may damage one’s business relationships far beyond the individual banker one chooses to confront. There, it may be difficult or impossible to meet constructively with a lender, or to put one’s thoughts in writing. The best way to deal with such a situation, Fishbein suggests, is to contact the regulatory agency when an examination is scheduled, and ask to meet with the examiner when s/he is in town. Examiners are used to dealing with confidential information and can hold such a meeting without telling the lender.

Meeting with an examiner may be difficult if the local bank is actually a branch of a large institution headquartered elsewhere, or if it is owned by a large holding company. In either case, the lender or the holding company will be reviewed as a whole, using the large-lender evaluation process, and the examiner may never come to the rural branch. Writing to an examiner could be crucial here, too, because mediocre performance by a rural branch or a small rural holding company affiliate could easily get lost in the shadow of satisfactory performance in a larger market.

Those whose local lenders are part of large institutions will have at least one added advantage: more data will be available for them to
REINVESTMENT ACT

assess their lenders’ performance. The new regulation requires large lenders to provide some new data on small farm and small business lending data, although not on housing loans. Even the farm and business data is limited. It will include nonmetropolitan areas, but will cover only loans originated or purchased (not applications and denials), and will not include the race and gender of borrowers.

One important piece of data for small lenders, and one that Fishbein advises using as a starting point, is the loan-to-deposit ratio. Examiners will look at a small lender’s loan-to-deposit ratio, a percentage that tells what proportion of the funds deposited in the bank or S&L are then loaned out to others. A low loan-to-deposit ratio indicates that the lender is using its funds for something other than loans — for investment in safe government bonds, for example. Of course, even a high loan-to-deposit ratio does not necessarily mean a lender is making loans where they are most needed in the community.

An additional opportunity for input will exist when a lender chooses the strategic plan option for CRA evaluation. While a lending institution is developing a plan, it must “informally seek suggestions from members of the public in its assessment area(s),” according to the new regulation. Then, once it has developed a plan, it must solicit public comment for at least 30 days by publishing a notice in a local newspaper. The introduction to the regulation makes clear that these comment opportunities are intended to help members of the community provide information about local credit needs rather than to reach consensus about what the lender should do to meet those needs.

There is still a great deal to learn about the new CRA regulation and its impact. *Rural Voices* welcomes comments from readers about their experiences with CRA. For more information, contact the Center for Community Change, 1000 Wisconsin Ave., N.W., Washington, DC 20007, 202-342-0567, or the National Community Reinvestment Coalition, 733 Fifteenth St., N.W., Suite 540, Washington, DC 20005, 202-628-8866. •

Leslie R. Strauss is the Director of Research and Information at the Housing Assistance Council.

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<td>Federal Reserve Board</td>
<td>Contact your regional Federal Reserve Bank</td>
<td>Request “Call Reports”: FDIC Disclosure Group, Room F-518 550 17th St., N.W. Wash., DC 20429 202-898-7112 voice 202-898-3515 fax</td>
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<td>Federal Deposit Insurance Corporation</td>
<td>Call FDIC at 202-416-6940 or fax 202-416-2076</td>
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<td>Office of Thrift Supervision</td>
<td>Call Thomas Mason at OTS, 202-906-6688</td>
<td>Request “Thrift Financial Reports”: OTS Information Services Division 1700 G Street, N.W. Wash., DC 20552 202-906-6000 voice 202-906-7755 fax</td>
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The Housing Assistance Council (HAC) is a national nonprofit corporation founded in 1971 and dedicated to increasing the availability of decent housing for low-income people in rural areas.

HAC strives to accomplish its goals through providing seed money loans, technical assistance, training, research and information to local producers of affordable rural housing. HAC maintains a revolving loan fund providing vital seed money at below market interest rates to rural housing developers. Developers can use these funds for site acquisition, development, rehabilitation or new construction of rural, low- and very low-income housing. HAC has a highly qualified staff of housing specialists who provide valuable technical assistance and training, and research and information associates who provide program and policy analysis and evaluation plus research and information services to public, nonprofit, and private organizations. HAC’s subsidiary Rural Housing Services (RHS) syndicates rural housing developed with the Low Income Housing Tax Credit.