



Highlights of [GAO-05-110](#), a report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

Rural America has become more diverse: technology and the spread of suburbia have linked rural areas to urban areas, resulting in diminished distinctions between the two. The Rural Housing Service (RHS) applies statutory requirements for eligibility that may not reflect changes in rural areas or best determine which areas qualify for its housing programs. GAO's objectives included assessments of how eligibility is defined for RHS programs and how changes in the current eligibility requirements might impact the RHS mission of meeting rural housing needs.

## What GAO Recommends

GAO is not recommending executive action. However, to better ensure that RHS more consistently makes eligibility determinations for rural housing programs Congress may wish to consider (1) including density measures, rather than the currently used MSA criterion, in the statute to better reflect where people live; (2) phasing out the "grandfathering" of communities that experienced changes in eligibility because of inclusion in an MSA; and (3) eliminating the "lack of credit" requirement. The Department of Agriculture generally agreed with GAO's matters for congressional consideration.

[www.gao.gov/cgi-bin/getrpt?GAO-05-110](http://www.gao.gov/cgi-bin/getrpt?GAO-05-110).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-4325 or [shearw@gao.gov](mailto:shearw@gao.gov).

# RURAL HOUSING

## Changing the Definition of Rural Could Improve Eligibility Determinations

### What GAO Found

RHS determines which areas will be eligible (that is, defined as rural) for its programs by applying requirements in the Housing Act of 1949, as amended. While the definition largely focuses on population—generally up to 20,000—certain communities must also be "rural in character," not part of metropolitan statistical areas (MSA—which is defined as a county or counties associated with a city or urbanized area that has a population of at least 50,000), or demonstrate a serious lack of mortgage credit for lower- and moderate-income families. Also, a "grandfather" clause allows communities with populations over 10,000 to retain eligibility if they become part of an MSA—and still meet the "rural in character" criterion and not exceed 25,000 in population.

These eligibility requirements resulted in dissimilar determinations for what appeared to be similar areas. For example, in visits to five states GAO found that applying the grandfather clause enabled certain communities within MSAs to retain eligibility while other communities within the same MSAs remained ineligible even though they met current "rural" and population criteria. In addition, GAO analysis of nationwide data found that RHS made more than 1,300 communities with populations of 10,000 or below eligible that were within or contiguous to areas that had populations of 50,000 or more.

GAO identified alternatives to retaining the MSA, grandfather, and credit requirements in the Housing Act of 1949. Because MSAs contain both urban and rural areas and have increased substantially in both size and number in recent decades, they may not be good determinants of urban-rural distinctions. According to the 2000 census, about half the nation's rural population lives in MSAs. An alternative measure would be to use the Census Bureau's urbanized areas and urban clusters, which are density-based measures that provide finer-scale information and could help RHS better and more consistently make eligibility determinations for areas with similar population and characteristics. By dropping the MSA requirement, "grandfathering" also could be phased out, allowing RHS to make determinations that focused on current conditions rather than prior eligibility. In addition, a 1997 USDA report found that lack of credit in rural areas was no longer a serious problem; rather, a lack of income and ability to pay the mortgage were greater issues. Therefore, the requirement to demonstrate a lack of credit no longer appears to be relevant to meeting housing needs in rural America.