Rural Housing

NATIONAL HOUSING TRUST

Prioritizing Housing Credit Properties in Rural Communities

Affordable rural housing development is a critical part of addressing the country's broader housing challenges.

While housing shortages are frequently framed as an urban issue, many rural communities face unique barriers, including aging housing stock, higher construction costs, limited new construction, and constrained access to financing. These challenges are compounded by lower population densities and weaker market conditions. As a result, the need for safe, stable, and affordable housing in rural areas is both significant and often overlooked. Prioritizing affordable housing in rural areas is essential to supporting the long-term stability of these communities. Without intentional strategies to address these challenges, rural communities risk limited access to quality, affordable housing.

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Incentivize rural housing development through basis boosts, set asides, or points.

The following analysis, which examined 53[1] Qualified Allocation Plans (QAPs) released before August 2025, highlights how Housing Finance Agencies (HFAs) are defining, incentivizing, and prioritizing rural housing developments. **We found that at least 30 HFAs incentivize rural housing development through basis boosts, set asides, or points.**

[1] All 50 states, plus Washington DC, New York City and Chicago were reviewed.

Defining Rural Housing

There is no standard definition of rural housing across HFAs. However, **at least 14 HFAs** define rural areas by referencing U.S. Department of Agriculture (USDA) Rural Development.

Because USDA Rural Development administers multiple programs, each with different definitions of rural, these references do not always point to a single easily defined standard. Instead, rural eligibility is generally assessed at the property level through USDA's eligibility mapping tool, which incorporates program-specific requirements.

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Reference the USDA definition of rural areas.

On the other hand, **at least 10 HFAs** have developed their own definitions of rural housing, reflecting local context and different policy priorities. These approaches vary significantly, with some HFAs relying on a fixed list of counties designated as rural or non-metropolitan, while others use census-based population thresholds or density measures. Examples include:

- **Indiana** defines a rural area as developments located within cities or towns with populations of 9,999 or fewer, as well as certain unincorporated areas. This includes counties without large or small cities, areas that are at least one mile outside city boundaries and lack access to public water or sewer infrastructure.
- **Maryland** defines rural areas as those that qualify for USDA Rural Development programs OR any area in Allegany, Caroline, Dorchester, Garrett, Kent, Somerset, Washington, Wicomico, or Worcester Counties that are not otherwise CDBG entitlement communities or HOME participating jurisdictions.[2]

[2] CDBG entitlement communities are U.S. metropolitan cities and qualified urban counties that receive annual formula-based funding from HUD to support community development activities such as housing rehabilitation, infrastructure, public services, and economic development. HOME participating jurisdictions are state and local governments that receive annual funding from HUD to support affordable housing efforts, including new construction and preservation, homebuyer assistance, and tenant-based rental assistance.

Ohio's Urban-Suburban-Rural Mapping Tool

Ohio utilizes the Urban-Suburban-Rural (USR) Index, a mapping tool and dataset developed in partnership with the Kirwan Institute, to evaluate and compare neighborhood conditions across the state to identify areas of opportunity and inform affordable housing siting decisions. The tool divides the state into urban, suburban, and rural census tracts, which the QAP uses to apply context specific scoring to ensure that opportunity is assessed relative to each geography rather than a statewide standard.

The Housing Assistance Council (HAC), a leading rural housing research and advocacy organization, offers another framework for rural criteria. Rather than a single rural designation, HAC uses a three-part classification of rural and smalltown, suburban and exurban and urban tracts based on factors such as housing density, commuting patterns, and geographic contiguity. This lack of a consistent definition across jurisdictions underscores how varying definitions can shape which communities qualify for resources, how funding is distributed, and the extent to which rural housing needs are effectively addressed.

Prioritizing Rural Housing Development

HFAs most often use point incentives, set asides, and basis boosts to prioritize rural housing development. **At least 20 HFAs** offer set-asides for rural housing, which reserve a portion of available Housing Credits specifically for rural projects, ensuring they are evaluated alongside comparable developments. This "like versus like" approach allows HFAs to evaluate proposals using selection criteria that better reflect rural development conditions, rather than those intended for urban projects.

Across the country, rural set asides are structured in three common ways:

1

Most HFAs **allocate a percentage of total available credits to rural projects**.

Georgia ensures that at least 35 percent of preservation awards are for USDA 515 properties (see text box below for more details) and/or properties located in rural areas. The Georgia HFA may award up to two applications that propose preservation of USDA 515 properties.

2

Other HFAs **establish caps based on a maximum dollar amount or a set number of rural developments funded** in each application cycle.

In **Iowa,** the state HFA awards no more than $1,300,000 to applications in rural counties. A city in a rural county can receive no more than one tax credit award, and, a rural county no more than two tax credit awards.

3

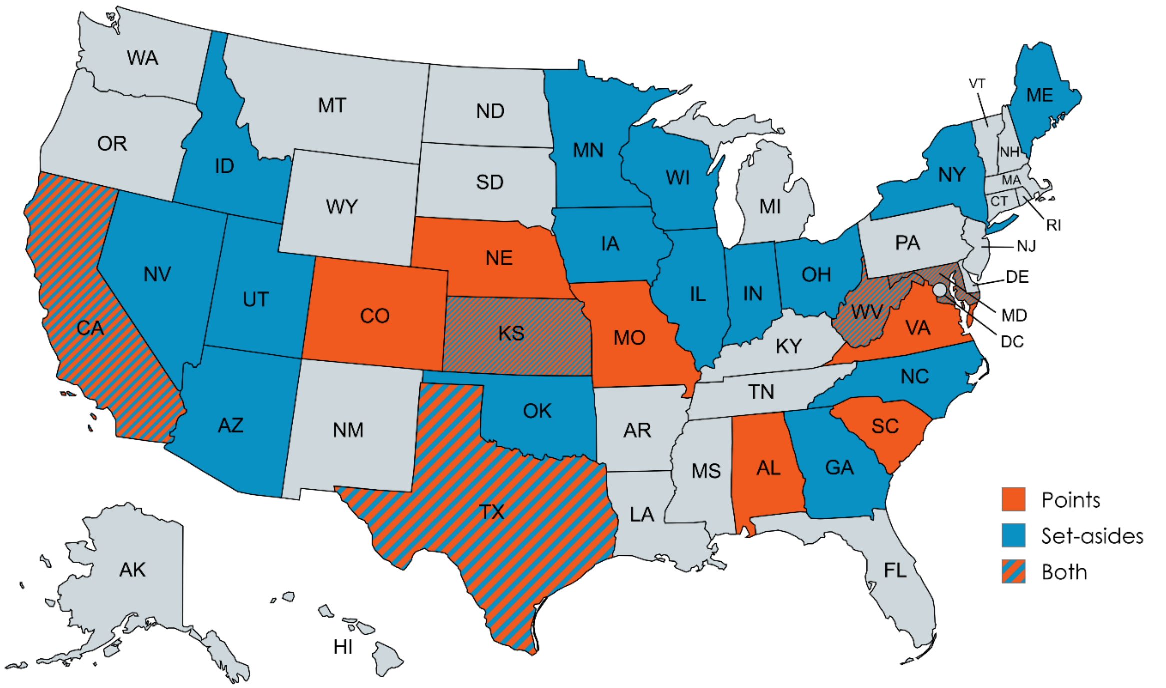
Some HFAs **carve rural set asides out of an HFA's total Housing Credit allocation, while in others, they are applied within new construction or preservation categories**.

Kansas reserves at least 25 percent of total Housing Credits for new construction for projects in rural counties.

In addition to set-asides for rural housing, **at least 11 HFAs award points** to incentivize the production or preservation of rural housing, allowing these projects to be more competitive in the scoring process. Some offer points for all rural developments, while others focus on preservation of existing rural properties. For example:

- **Missouri** offers five points to developments in rural underserved counties while preservation projects located in rural areas receive 17 points.
- **South Carolina** awards five points for any project located entirely within a rural area.

FIGURE 1 · HFAs WITH SET-ASIDES AND POINT INCENTIVES



At least **11 HFAs use a basis boost** to support rural housing development. These boosts increase the eligible basis for rural projects by up to 30 percent, which in turn allows them to receive more Housing Credits and generate additional equity, improving a project's overall financial feasibility. Together, these incentives highlight how HFAs are structuring the Housing Credit allocation processes to support rural housing.

Differences Between Rural and Non-Rural Housing

Many HFAs consider project proximity to amenities as part of the Housing Credit allocation criteria, recognizing the distance between housing and essential services as an important factor. **At least 14 HFAs** account for distances to amenities between urban/suburban and rural contexts, as access can vary significantly.

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Account for proximity to amenities in rural areas.

These QAPs typically allow greater distances between developments and key services in rural areas, reflecting the more limited and dispersed availability of amenities and services. For example:

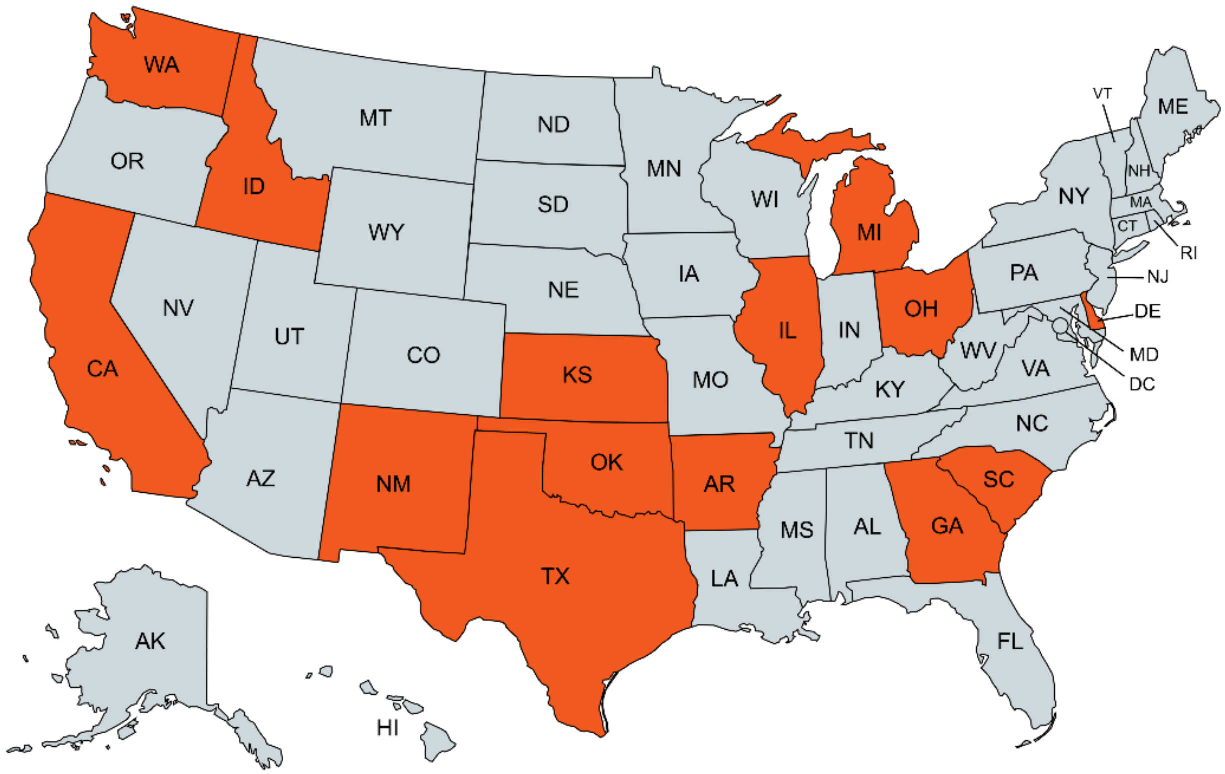
- In **Illinois**, projects earn points based on how close they are to employment, with requirements that vary by geography and are more flexible in rural (non-metro) areas.
- In **Washington**, projects earn points for close, walkable access to community, retail, and service amenities. Rural projects are permitted to be located further from these amenities.

Federal Support for Rural Housing: USDA 515 Program

Under the USDA Rural Rental Housing Program (515), USDA Rural Development makes direct loans to developers to finance affordable multifamily rental housing for very low-income, low-income, and moderate-income families. Section 515 loans have an interest rate of 1%, amortized over 50 years, to finance modest rental or cooperatively owned housing. Approximately 80 percent of 515 units also receive USDA 521 Rental Assistance which makes the units affordable to extremely low-income households. The average annual income of 515 residents is just over $18,000 annually and two-thirds are elderly or disabled.

The 515 portfolio faces a preservation crisis. While the program has financed over 28,000 properties and 533,000 units since inception in 1963, only just over 12,000 properties and 380,000 units remain in the portfolio. This is due to owners exercising mortgage prepayment options or the mortgages reaching maturity, without a sufficient range of policy and financing options available to keep the units affordable.

FIGURE 2 · HFAs ALLOWING GREATER DISTANCE TO AMENITIES IN RURAL AREAS



Structural differences exist between the development and preservation of affordable housing in urban vs rural areas. As such, some states may adjust their funding standards for rural developments to reflect the different financial conditions of these projects. **At least six states** (AL, AR, GA, OH, TN, MD) incorporate variations in development cost standards, such as lower caps on developer fees, reduced minimums for annual operating expenses, and distinct development cost limits tailored to rural projects. **At least four states** (CA, IL, KA, PA) include variations in their minimum Area Median Income (AMI) requirement for rural projects, either allowing points to be earned for units restricted to households at higher AMIs or a smaller number of units to be designated for deeper income targeting.

Prioritizing Urban Over Rural

Some states, such as **Alabama**, **Rhode Island**, and **South Dakota**, work to promote a balanced distribution of Housing Credits across the state, either by allocating an equal percentage of credits across geographic regions or by attempting to ensure the distribution of affordable housing is relatively even across the state.[3]

On the other hand, at least two states, including **Connecticut** and **Hawaii**, explicitly prioritize the new construction or preservation of affordable housing in urban areas through the allocation of points.

Conclusion

Housing Finance Agencies play a critical role in shaping how rural housing is prioritized within the Housing Credit program. This analysis shows that, across the country, a range of approaches, from set-asides and scoring incentives to adjustments in cost standards and location criteria, are used to incorporate rural considerations into the allocation process. Strengthening and standardizing these strategies could help ensure rural communities are both competitive and have more consistent access to the affordable housing resources they need.

Learn more about how QAPs can accelerate the affordability, opportunities, and sustainability of affordable housing on our QAP analysis home page.

This Infobrief was designed with the assistance of AI using Claude Design.

[3] These are states that explicitly state that they are trying to balance distribution across the state, though many others may include similar language within a new construction set-aside.