Housing Assistance Council
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, E-Mail: hac@ruralhome.org
www.ruralhome.org

Statement for the Record of
Moises Loza, Executive Director,
Housing Assistance Council
before the Committee on Appropriations,
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies,
U.S. House of Representatives
May 1, 2009

The Housing Assistance Council (HAC) appreciates this opportunity to submit testimony regarding the U.S. Department of Agriculture (USDA) rural development budget for fiscal year 2010. HAC and others in the rural housing world greatly appreciate Chairwoman DeLauro's and the Subcommittee's support for USDA rural housing programs in recent appropriations bills.

HAC was established 38 years ago to provide financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing. Created to meet the housing needs of the poorest of the poor in the most rural places, HAC fulfills its mission by working in close partnership with local organizations in rural communities throughout the nation. HAC has worked in rural communities in all states, Puerto Rico, and the Virgin Islands. These relationships provide us with first-hand knowledge of the issues impacting rural areas and help us develop the strategies we believe have led to sustainable growth in many communities across the nation.

During the current recession it is particularly important to support the rural housing programs administered by USDA's Rural Development Housing and Community Facilities Programs office (RD). Foreclosures and mortgage markets have become the major housing-related news topics, but the housing needs of low-income people in both urban and rural places predated the housing crash and will undoubtedly outlast it. RD's programs have a long history of success in meeting these needs, and must be fully funded to help rural America not only recover from the recession, but also move forward.

One of every five homes in this country is located in a nonmetropolitan area. More than one quarter of rural households pay more than the federal standard of 30 percent of their monthly income for housing. Most of these cost-burdened rural households have low incomes. At the same time, 1.7 million rural homes (6.3 percent) are either moderately or severely substandard. Minorities in rural areas are among the poorest and worst housed groups in the entire nation, with much higher levels of inadequate housing conditions. Complicating efforts to improve rural housing, many rural places lack strong, experienced nonprofit housing organizations. Housing needs are particularly severe for certain rural places and populations including Native Americans, the Mississippi Delta, Appalachia, the colonias along the U.S.-Mexico border, and farmworkers.

Despite the needs, funding for USDA rural housing programs has decreased significantly in recent years. Now, the mortgage crisis threatens to erase gains in homeownership and asset-building, while rental units in aging buildings need to be rehabilitated and preserved as affordable housing.

HAC is grateful to Congress for including substantial funding for RD's homeownership mortgage programs, both direct and guaranteed, in the American Recovery and Reinvestment Act (ARRA), as well as for some other RD programs.

HAC's specific recommendations for FY 2010 appropriations are provided in Table 1. By funding RD housing programs at these levels, the subcommittee would:

Support continued strong direct lending programs for single- and multifamily rural housing development. Among RD's housing programs are direct loan programs for homeownership and for development of rental housing, and loan guarantee programs for the same two purposes. The Bush Administration's budget proposals consistently suggested defunding the direct loan programs in favor of the guarantee programs. While guarantees cost the government less than direct loans, the guarantee programs cannot replace the direct loans because they serve different populations.

In 2006 homebuyers receiving Section 502 direct loans had an average income of about $23,000, compared to $40,400 for homebuyers with Section 502 guaranteed loans. Similarly, the average income of tenants in developments financed with Section 515 direct loans is just under $11,000 per year as of April 2008. No comparable figure is available for tenants in properties with private loans guaranteed under USDA's Section 538 program, but in 2005 USDA reported Section 538 tenants averaged about $18,400 per year.

The Section 502 direct loan program is particularly important in the current economy because it makes homeownership possible for very low- and low-income rural residents who cannot qualify for private mortgages, thus ensuring that they will not turn to predatory lenders to achieve their dreams. The Section 502 and 515 direct loan programs must be kept in place with full funding, along with the Section 502 and 538 guarantee programs.

Support provision of decent, affordable rental homes in rural places. Funding could enable development of new affordable rental units in the many rural areas where they are needed; fully fund the programs and demonstrations at USDA and HUD that address the needs of many existing federally funded rental developments for renovation and for preservation of their owners' obligations to keep rents affordable; and provide USDA or HUD rental assistance, as needed, for tenants in USDA-financed buildings, tenants whose landlords convert properties to market rate rents, and tenants in foreclosed rental properties.

Despite a general neglect of rental housing by national housing policy through most of the first decade of the 21st Century, RD and Congress recognized the need to preserve affordable rental housing in rural America and developed useful demonstration programs that are now ready to be made more broadly available. Past successes also illustrate effective ways to develop new rural rentals for low-income tenants. Appropriations for 2010 should:

- ***Fund the Section 515 rental program at $250 million*** to finance construction of 3,000 apartments and create 3,500 jobs. Affordable rental housing is scarce in many rural places, and new construction has dropped sharply over the last 20 years as Section 515 funds have been cut. Rural housing organizations have made good use of Low Income Housing Tax Credits, but tax credits alone cannot produce rentals affordable to the lowest income rural residents.
- ***Provide USDA Section 521 Rental Assistance (RA) or HUD Section 8 vouchers to Section 515 and 514 tenants*** who would otherwise pay more than 30 percent of income for rent. The average income of Section 515 tenants is just under $11,000 (as of April 2008) and more than half of them are elderly or disabled, thus probably living on fixed incomes. Despite the Section 515 assistance to their landlords, 16 percent of Section 515 tenants pay more than 30 percent of their incomes for their homes. The cost of renewing all expiring RA contracts in FY 2010 is about $1 billion, assuming that contracts are for only one year and no new RA units are provided – but, without RA, very low-income tenants cannot afford their rent and property owners often cannot balance their budgets, while without longer-term contracts (e.g., five years) other funding sources are reluctant to participate in projects that seem to have uncertain futures.
- ***Fund the Section 514/516 farm labor housing program*** for construction of needed new units. Housing problems such as substandard housing quality, crowding, and affordability issues are commonplace among migrant farmworkers who travel to follow crop seasons and labor demand, as well as those who reside in the same community year-round. RD farm labor housing funds are an important resource for developers, but funding has always been to low compared to the need. The Section 514/516 program has produced only 35,989 units since it began obligating funds in 1962. For 2010, HAC proposes funding levels of at least $50 million for Section 514 loans and $50 million for Section 516 grants.
- ***Preserve and revitalize affordable Section 515 and 514 rural rental housing.*** These properties are aging, with many badly in need of repairs and renovations. At the same time, some owners want to prepay their mortgages and leave the Section 515 program, often because they hope to convert their apartments to market-rate rentals. Federal intervention is needed. HAC recommends that Congress:
  - *Provide substantial funding for the Multi-Family Housing Revitalization (MPR) and Preservation Revolving Loan Fund (PRLF) programs.* Created a few years ago as demonstration programs, MPR and PRLF have proven to be invaluable tools in preservation efforts.
  - *Continue to set aside $6 million in RA each year for debt forgiveness or RA payments* as authorized by Section 502(c). This set-aside gives USDA a degree of flexibility in using these funds that is not provided by Section 521 but is essential for preservation efforts.

Continue building the capacity of rural housing organizations to meet their own communities' needs. Mission-driven community organizations, primarily nonprofits, play an essential role in putting rural housing funds to work in rural places. To use rural housing programs effectively to improve housing and contribute to sustained economic recovery, a strong nonprofit presence is required. To support community-based nonprofit organizations, their employees, and their vital role, the Housing Assistance Council recommends an appropriation of

$15 million in FY 2010 USDA's Rural Community Development Initiative (RCDI), which funds intermediary organizations that build organizational capacity for local housing organizations.

HAC further encourages the Congress to:

Increase Rural Development's housing staff resources. In 1989, the old Farmers Home Administration had 1,904 offices, one in almost every rural county, giving the agency a unique accessibility to rural residents. That year FmHA also had more than 11,500 staffers. Beginning in the early 1990s, USDA reorganization and other recent cost-saving measures have led to consolidation of many field offices. By 2008, USDA RD had 6,100 staff handling not only housing programs, but also business and utilities. Clients are now served by regional offices covering numerous counties, loan servicing is centralized in a single national office, and the agency's clients are encouraged to communicate electronically.

These changes have not benefited low-income rural residents. Centralization works well for RD's multifamily programs, when the agency's customers are for-profit or nonprofit housing developers, and for water/ sewer programs. But rural families needing RD assistance to purchase or repair their homes should be served by people who live near them and share their culture, at least until universal access to high-speed computers is achieved, as well as universal ability to use them. In addition, local offices can better implement flexible policies to serve local conditions. Therefore servicing for the Section 502 and 504 programs should remain in local offices.

In 2009 the American Recovery and Reinvestment Act provided additional funding for the Section 502 direct and guaranteed loan programs, enabling USDA to address a significant backlog of applications but also significantly stretching its staff resources. HAC urges Congress to appropriate enough funds for RD staffing to ensure that enough staff are in place to handle the agency's work, as well as enough field offices to reach low-income rural residents.

Encourage and fund green building methods. Efficient use of energy and natural resources, healthy surroundings, and sensitivity to the environment are as important in affordable housing as in market rate buildings. Potential avenues could be to direct some weatherization funds to use with USDA programs, and allow the new green retrofit program for HUD-supported apartments to be used also with USDA units.

Ensure adequate funding for rural residential water and sanitation services. Hundreds of rural communities nationwide still do not have access to clean residential drinking water and safe waste disposal systems. The budget should continue to make loans and grants available, including funding for assistance to local governments, tribes, and nonprofits that lack the necessary expertise, through USDA's Rural Water and Waste Disposal program.

In the last five decades the United States has achieved remarkable success in improving access to modern water and sanitation services for its residents. Hundreds of rural communities nationwide, however, still do not have access to clean residential drinking water and safe waste disposal systems. Most of the people affected are the poorest of the poor or the elderly, usually living in rural areas with incomes below the federal poverty level.

Many small communities look to the U.S. Department of Agriculture's Rural Water and Waste Disposal program as their sole source of affordable financing for drinking water, sanitary sewage, solid waste disposal, and storm drainage facilities. The program assists rural areas and cities and towns of up to 10,000 residents that are unable to finance their needs through their own resources or with credit from commercial sources. Available financing includes both direct and guaranteed loans. Communities with low median household incomes are also eligible for grants.

To meet rural water and waste disposal needs, and to assist with economic recovery in small communities, HAC recommends that FY 2010 appropriations continue funding these programs at $1 billion for loans (direct and guaranteed) and $467.5 million for grants.

Table 1:
Recommended Rural Housing Program Funding Levels

USDA Rural Development Program	**HAC Recommdtn for FY 2010 Approp. (dollars in millions)**
Loans	
502 Single Family Direct	$2,000
504 Very Low-inc. Repair	25
514 Farm Labor Hsg.	50
515 Rental Hsg. Direct	250
Rental Prsrv. Revlg. Loans	*
Grants and Payments	
504 Very Low-inc. Repair	25
516 Farm Labor Hsg.	50
523 Self-Help TA	75
533 Hsg. Prsrv. Grants	50
521 Rental Assistance	1,107**
542 Rural Hsg. Vouchers	*
Rental Prsrv. Demo. (MPR)	100*
Rural Cmnty. Dev't Init.	15

* HAC recommends a total of $100 million be appropriated for USDA's Multifamily Rental Preservation Demonstration, Section 542 preservation vouchers, and the Rental Preservation Revolving Loan Fund (PRLF), to be allocated among those three programs by USDA. USDA should allocate at least $10 million for the PRLF.

** This total includes $1.086 billion to renew all expiring Rental Assistance (RA) contracts, $5.9 million for RA in connection with rental housing preservation, and $15 million for new RA contracts in newly constructed properties with Section 515 or 514 loans.