NATIONAL RURAL HOUSING COALITION

1155 15th Street, NW • Suite 400 • Washington, DC 20005 • (202)393-5229 • www.ruralhousingcoalition.org

Statement of Bryan Ketcham, Vice President and Director of Housing Services for Catholic Charities Housing Services – Diocese of Yakima (CCHS) and Board Member of the National Rural Housing Coalition, before U.S. Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Housing, Transportation and Community Development

Hearing on U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives

September 20, 2022

Chairwoman Smith, Members of the Subcommittee. My name is Bryan Ketcham, and I am Vice President and Director of Housing Services for Catholic Charities Housing Services – Diocese of Yakima, Washington (CCHS). Catholic Charities Housing Services (CCHS) is a faith-based, non-profit organization established in December 1998, offering locally based affordable housing solutions to communities in the 7-County jurisdiction of the Catholic Diocese of Yakima. Working with local Catholic parishes, community groups, and other sponsors, CCHS develops, owns, and manages a variety of service-enriched affordable housing developments for low-income farmworkers and vulnerable and under-served populations where education, self-empowerment, and self-sufficiency are promoted.

CCHS's mission is: Motivated by Christ's love, we bring hope to life, especially for those in need.

We envision communities where: people are treated with dignity and respect, their basic needs are met, and families are empowered to enhance the quality of their lives and learn to contribute in diverse and positive ways to the communities in which they live.

CCHS promotes partnerships with local communities, collaboration and networking with other housing and community development entities, and advocates at the policy level for affordable housing and the clients we serve. Our primary programs include:

- Affordable Multi-Family Rental Housing
- Resident Services
- Housing Counseling
- Self-Help Homeownership Programs

The Resident Services Program's vision and focus are to coordinate services that residents use to empower individuals, strengthen families, and transform communities in and around CCHS' multi-family communities. The Resident Services program provides the opportunity to learn and acquire knowledge and new skills, create future prospects, and expand their horizons. The program goal is to act as a liaison connecting residents to opportunities provided by local resources in five areas of focus: Education, Community Safety, Health/Nutrition, Community Engagement, and Economic Opportunities.

Eighty (80) percent of our rental housing portfolio and forty (40) percent of participants in our self-help homeownership programs are farmworker households. We currently have 27 rental housing communities serving over 950 households and have sold over 200 homes to first-time homebuyers through our self-help housing models. Nearly twenty (20) percent of homebuyers have "graduated" from our affordable rental housing to homeowners.

I am also a Board Member of the National Rural Housing Coalition (NRHC). NRHC is a national membership organization that advocates for better policies, programs, and resources aimed at improving housing conditions in rural America. NRHC has testified before the Committee previously, and we appreciate this opportunity to submit this statement today.

Housing in Rural America

The problems of housing supply and affordability in rural America are well documented:

- From 2009-2017, annual rural home construction dropped by two-thirds. There is little evidence that it has picked up substantially;

- A 2021 study by the Harvard Joint Center for Housing Studies found that 38 percent of rural renters pay more than 30 percent of their income for housing costs, and 19 percent of rural renter households pay more than 50 percent of their income for housing;

- According to the most recent National Agricultural Workers Survey, 33% of all farmworkers and 45% of migrant farmworkers live in crowded dwellings[1];

- A rising tide of maturing U.S. Department of Agriculture's (USDA) rural rental housing loans threatens the availability of affordable housing; and

- Over 1.5 million occupied substandard housing units in rural areas, and over 750,000 units lack piped water. This lack of basic plumbing is even higher on some Native American lands.

[1] "National Agricultural Workers Survey." January 2018.
https://www.dol.gov/sites/dolgov/files/ETA/naws/pdfs/NAWS_Research_Report_13.pdf

Support for Federal Rural Housing Programs

Against this backdrop, there has been a long-term trend of budget cuts for rural housing programs and the administrative capacity of USDA Rural Development mission area and the Rural Housing Service. Resources to improve rural housing conditions are sorely lacking and have been for some time. Between Fiscal Years (FY) 2000 and 2022, loan subsidies for low-income home ownership, rental and farmworker housing, and related assistance have fallen by an inflation-adjusted 61 percent. As a result, USDA provides little assistance for low and very low-income homeowners; has not offered direct loans for new construction of affordable rental housing in over ten years; provides minimal support for farmworker housing and financing for rental housing preservation.

The FY 23 USDA budget is a marked improvement. The rural housing budget expands homeownership opportunities for low-income households, increases housing opportunities in tribal communities, provides needed funding to repair substandard housing, revitalizes rental and farmworker housing production, which tackles the pressing need to preserve rental housing, and extends rental assistance to rent overburden families residing in USDA rural rental housing, including some 27,000 families who received rental assistance authorized by the American Rescue Plan Act. We appreciate the leadership of Chairwoman Smith and the support of other Senators for the budget request.

Investing in USDA's Rural Housing Infrastructure

We also were pleased to see that the Inflation Reduction Act included $100 million for USDA Rural Development administrative costs. We urge the Committee to encourage USDA to allocate a significant share of those funds for the Rural Housing Service to support its field structure and upgrade its information technology.

The need to address these issues is reflected in a recent NRHC survey of organizations using the Section 502 direct loan program. Seventy-three organizations participated. A copy of the entire survey report is attached to my testimony. Our survey found wide variations in how Section 502 loans are administered. There is not always consistent staffing to process loan applications, no one set of application forms, loan processing is often delayed, requiring potential borrowers to resubmit employment and wage verification, and loan closing can take five days or stretch to 70 days longer. Only about half of mortgage applications are submitted electronically. In many cases, applicants still use paper forms. Only about 30 percent of respondents indicated they worked with the same USDA loan specialist on a regular basis.

The strength of USDA's rural development effort has always been its field office structure. There is no substitute for local staff in rural communities assisting homeowners, housing developers, and communities. Historically, 50 percent of Rural Development employees work in field offices and report to state directors. However, that structure has been diminished, and only 30% of Rural Development employees report to

Rural Development State Directors. Even though they may work in state offices, the remaining 70 percent report to the National Office.

Single Family Direct Homeownership Loans

The direct Section 502 program is a success story. In FY 2022, for $23 million in budget authority, USDA provided close to 7,000 loans to low and very-low-income homeowners, costing less than $4,000 per loan. When direct loans are combined with the Mutual Self-Help Housing program, there is an even more significant benefit to the family, as sweat equity savings average $25,000 per unit and, in many cases, it's more significant.

The Section 523 Mutual Self-Help program has an appropriation of roughly $30 million for several years. As a result, many grantees report that their grants have not increased to keep pace with inflation, let alone expand their activity. The budget request of $40 million would be extremely helpful in allowing some grantees to expand their efforts for low and very low-income families building their own homes.

As noted, the direct program has received very little political or administrative support. Direct borrowers cannot apply for loans online; the IT system for direct loans is so old that the contractor cannot provide technical and servicing support. With low staffing levels, the packaging program is an important resource. Yet, USDA policy does not permit the fee to be included in the loan amount, requiring that it be contingent on the appraisal. In contrast, the Section 502 guarantee, with its up-to-date system, has the features of modern loan-making operations, including online applications and permit packaging fees to be rolled into the loan.

Rental Housing Issues

USDA's Rural Housing programs provide much-needed access to affordable rental housing. As of October 2021, some 417,000 USDA finance rental housing units provide housing for rural seniors, people with disabilities, migrant and seasonal farmworkers, and low-income families. Most (91.6 percent) of Section 515 tenants have very low incomes. The average tenant earns just $14,665 annually. In addition, 64 percent of all households are elderly or disabled tenants, persons of color head 35.7 percent, and women head 71 percent.[2]

Almost 290,000 families residing in USDA-financed rental housing receive rental assistance authorized under Section 521(a) of the Housing Act of 1949. In 2018, the average income of Section 515 tenants receiving Section 521 Rental Assistance was only $12,501.[3]

USDA faces two significant problems it must address in its rural rental housing portfolio. The first is the deteriorating conditions of its developments. In 2016, USDA published a

[2] United States Department of Agriculture Rural Development, "Results of the 2021 Multi-Family Housing Annual Fair Housing Occupancy Report." https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf

[3] *Ibid*

second Comprehensive Property Assessment and Portfolio Analysis.[4] This report looked at USDA's Section 515 properties, farm labor housing properties, Section 538 financed developments, and projects refinanced under the Multifamily Preservation and Revitalization (MPR) program. The report analyzed the Per Unit Per Annum (PUPA) net reserves, or the annual amount of reserves that must be set aside for properties to maintain functionality. The report found that the average PUPA reserves deficit for the Section 515 portfolio had increased. A study released by USDA in 2004 indicated that the PUPA reserves deficit was $647 (average per property), but by 2015, the PUPA deficit had increased to $964 (average per property).[5]

As the cost of maintaining the portfolio increased, the average age of developments in USDA's rental housing portfolio is 34 years. The 2016 report found that the need had more than doubled in the past 12 years and raised the estimate to $5.596 billion to preserve USDA's rental housing stock (including farm labor, Multi-family Preservation, and guaranteed developments) over the next 20 years. Of that amount, $4.7 billion relates to Section 515 developments.[6]

The second problem facing USDA is maturing mortgages. Although Section 515 was established in 1968, the high point of Section 515 production was 1977-1985. As a result, today and in the near future, there is a rising tide of maturing mortgages that could reduce the availability of affordable rural rental housing. In 2018, the Government Accountability Office estimated that over 90% of USDA rental housing properties could exit the portfolio by 2050. And USDA has indicated that current preservation resources are insufficient and will become "catastrophically so by 2027".

In March, USDA released a PowerPoint presentation at an NRHC board meeting. One of the slides indicated that the combined cost of preservation demands and maturing units totaled $30.9 billion through 2050. This amount would preserve 333,780 units, or about 80 percent of the portfolio.

<u>Policy Response</u>

There is a pressing need to recapitalize existing rental housing and preserve that housing for eligible households. USDA had limited resources to address this problem. The Multifamily Preservation and Revitalization Program (MPR) is USDA's principal source of capital for preserving its multi-family developments. MPR has never been authorized and was established in the FY 2006 Agriculture Appropriations Act.

MPR is a flexible subsidy tool that can defer existing loans and provide "soft second" loans and grants. In recent years appropriations have hovered around $28 million in

---

[4] "USDA 2016 Rural Development Multi-Family Housing Comprehensive Property Assessment," U.S. Department of Agriculture Rural Development (March 1, 2016). https://www.rd.usda.gov/sites/default/files/USDA-RD-CPAMFH.pdf

[5] *Ibid*

[6] *Ibid*

budget authority. In FY 21, USDA provided approximately $90 million in assistance under MPR. MPR is typically used to leverage other federal or state financing, including the Low Income Housing Tax Credit (LIHTC), Bond, Section 515 loans, and HUD's HOME program. USDA's FY 23 budget request for MRP totaled $70 million, a substantial increase over previous years. However, even if that amount is approved, it will primarily address the backlog of some 200 applications for assistance.

NRHC has long supported substantial increases in Section 515 and MRP to recapitalize properties. An added benefit of this approach would be the extension of rental assistance and mitigating the crisis of maturing mortgages. Under current law, rural rental assistance is limited to multi-family projects with loans under Sections 514 and 515.

However, there is a limited appetite for ramping up federal spending for rural multi-family housing preservation. The USDA budget has opened the door to "decoupling" rental assistance from active 514 or 515 loans. Given the capitalization needs of the portfolio, the proposal implicitly assumes that resources from sources other than USDA will finance most or all of the repair, renovation, and upkeep of rural rental housing projects. Key among these resources will be the LIHTC. It is important to note that many of Section 514 and 515 projects are small – 25-30 units and house tenants with limited incomes are often located in small, poor rural communities. It remains to be seen how attractive these projects will be to tax credit investors.

NRHC is reluctant to support the decoupling provision contained in the budget request, which, in effect, overrides authorizing statute and permits rental assistance to continue in a project that no longer has Section 514 or 515 loans. The language in the budget recommendation is, by itself, inadequate. It does not include any guidelines or conditions under which USDA determines that the project cannot be restructured and rental assistance is continued. However, the overwhelming number of mortgages that will mature in the near future and very limited resources available make decoupling an alternative worth considering.

Implementation of the decoupling program should only go forward in a framework that delineates the role and responsibilities of both project owners and USDA. Our recommendations are listed below.[7]

The framework for approval of decoupling requests should include:

1. A requirement that USDA sets rents in accordance with the lower of budget-based regulatory process or the operating cost adjustment factor as a payment standard as provided under Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (42 7 U.S.C. 1437 note);
2. Agreement by the owner to a 20-year extension of rental assistance contracts, subject to annual appropriations;

[7]U.S. Government Accountability Office (GAO), Rural Housing Service: Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units

3. Agreement by the owner to maintain the housing as decent, safe, and sanitary and in conformity with provisions established in Title V of the Housing Act;
4. Approval by USDA of a plan by the owner identifying financing sources and timetable for renovations and improvements deemed necessary by the Secretary to maintain and preserve the property. If such a plan is not acted upon by the Secretary within 30 days of submission, the rental assistance contract is automatically approved for no more than one year;
5. Transfer of Rental Assistance – In cases in which a loan or loans have matured or are prepaid, and the owner has opted not to restructure the loan(s), a tenant residing in a project shall have 18 months prior to loan maturation or prepayment to transfer the rental assistance assigned to the tenant's unit to another rental project financed under Section 515 or Section 514 and will have priority for admission over other applicants. In cases in which a property is not available, the Secretary is authorized to offer a voucher to tenants. The owner of the initial project may rent the tenant's previous unit to a new tenant without income restrictions; and
6. Before implementing the above provisions, the Secretary shall publish a Notice of Advance Rulemaking, consult with appropriate stakeholders, and publish an interim final rule no later than 12 months after enactment.
7. Other necessary actions:

   Congress should reserve a significant amount of Section 515 funding for use by non-profit organizations to acquire and preserve USDA-financed rental housing. Making these funds available to broad-based private or public non-profit or its affiliates, which is dedicated to the preservation, will further the long-term use of USDA rental housing for eligible households.

Many of our recommendations to improve the decoupling process, along with authorization of MRP, revision to the voucher program, and increased support for technical assistance, are included in S. 4872, Strategy and Investment in Rural Housing Preservation Act, sponsored by Sens. Shaheen and Smith. We are pleased to offer our support for this legislation.

Thank you for this opportunity to submit this statement. I look forward to any comments or questions that the Committee may have.