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## **Introduction**

On behalf of the National Rural Housing Coalition (NRHC), I would like to thank the Bipartisan Policy Center Commission on Housing for this opportunity to provide testimony as the Commission develops its recommendations for future housing policy. With my testimony, I hope to provide this Commission with a deeper understanding of the unique housing challenges in rural America and to help identify successful strategies to improve access to clean, decent, and affordable housing.

Since 1969, NRHC has promoted and defended the principle that rural people have the right – regardless of income – to a decent, affordable place to live, clean drinking water, and basic community services. NRHC is a national membership organization consisting of non-profit housing organizations, housing developers, state and local officials, and housing advocates. NRHC aims to support and improve federal policies and programs that finance housing and related community facilities in rural America. Since 1982, I have served as the Coalition’s Legislative Director and Executive Secretary, and Rapoza Associates has managed all the work of the Coalition.

## **USDA Rural Housing Programs**

More than 60 years ago, Congress enacted the Housing Act of 1949. Under that law, the U.S. Department of Agriculture’s (USDA) Rural Housing Service (RHS) – and previously the Farmers Home Administration – continues to fulfill its work towards the goal of providing “a decent home and suitable living environment for every American family.” Through low-cost loans, loan guarantees, grants, and other assistance, USDA’s rural housing programs have provided millions of rural families with access to clean, decent, and affordable housing, primarily through Section 502 Direct Loans, Section 523 Mutual Self-Help Housing, Section 515 Rural Rental Housing, Section 514/516 Farm Labor Housing, Section 521 Rural Rental Assistance, and Section 502 Guaranteed Loans.

For over 60 years, the Section 502 Direct Loan program has expanded homeownership opportunities by providing affordable, fixed-rate mortgages to more than 2.1 million rural families, helping them build their wealth by over \$40 billion. In the last 5 years, the Section 523 Mutual Self-Help Housing program helped almost 5,500 rural families, joining together in small groups, to work on nights and weekends to build their own home - reducing construction costs, earning equity in their homes, and making lasting investments in their communities. Today, more than 500,000 of rural America’s most vulnerable families – including very low-, low-, and



moderate-income households, the elderly, and persons with disabilities – live in rental housing financed by USDA’s Section 515 Rental Housing program. Over 90 percent of all rental assistance provided under the Section 521 program goes to families earning less than 50 percent of the area median income. Despite having the worst housing needs of all rural people, thousands of farm laborers no longer live in substandard housing because of the Section 514/516 Farm Labor Housing programs. And, in 2010 alone, more than 80,000 rural families accessed mortgage loans guaranteed under the agency’s Section 502 Guaranteed Loan program.

USDA Rural Housing programs are able to make an incredible difference in the lives of rural Americans, while being extremely cost-effective. For example, each Section 502 Direct Loan costs taxpayers just \$7,200 *over the entire lifetime of the loan*. Compared to other federal housing programs that can cost taxpayers \$7,000 *each year*, the Section 502 Direct Loan program is a smart, long-term investment. Likewise, Section 521 Rental Assistance subsidies provide low-income rural families with critical support at a minimal cost. For example, the Section 521 Rental Assistance subsidy provides rural America’s most vulnerable families with an average *\$180 of support each month*. Considering that the average household income for a Section 521 family is just \$7,300, even this small amount of rental assistance is critically important to those who receive it.

For low-income rural families, USDA Rural Housing programs are often the *only available source* of safe, decent, affordable housing. Housing options—outside those supported by federal housing programs—are simply too expensive, are of poor quality, or are inaccessible to low-income families. Rural housing needs are made worse by higher, more persistent levels of poverty, higher rates of substandard housing, and limited access to affordable mortgage credit.

Yet, over several decades, support for rural housing programs has diminished. Despite the incredible need for affordable housing in rural communities, the cost-effectiveness of these programs, and their remarkable success in serving some of our nation’s poorest, most vulnerable families, Congress has continued to defund rural housing programs. This, in turn, reduces housing opportunities, weakens rural job creation, decreases local tax revenues, and increases the backlog of these programs’ waiting lists. A recent shift toward guaranteed loan programs – and away from direct lending – has come at the expense of families with the greatest needs, living in smaller, poorer, and more remote rural communities. And, closing USDA field offices and reducing local staff have put additional strain on these critical programs.

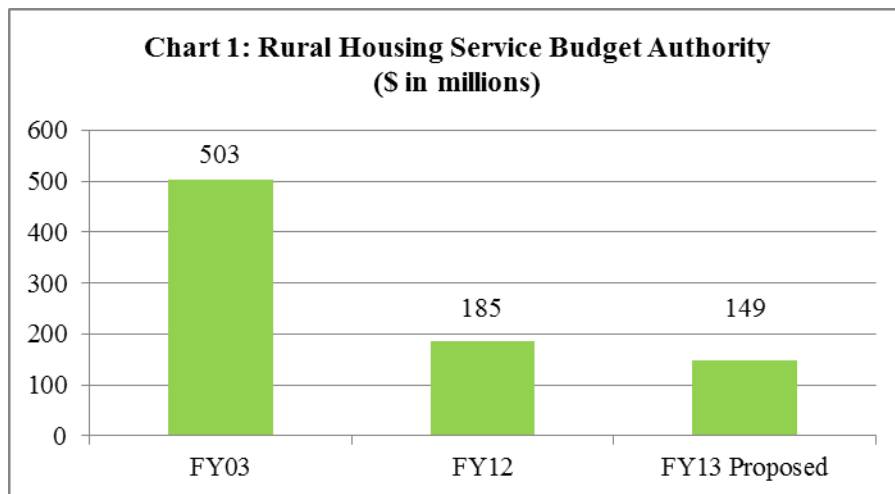
### **Decreased Support for Rural Housing Programs**

Over a decade of funding cuts – by both Republican and Democratic Administrations – have had a direct and negative impact on the ability of low-income rural families to access to affordable housing. Although many federal programs have seen declines in funding in recent years, the impact on rural housing programs has been disproportionately worse. Between 2010 and 2012, USDA’s budget fell by \$3.3 billion or 16 percent. Yet, over the same period of time, rural housing programs were reduced by 23.5 percent.



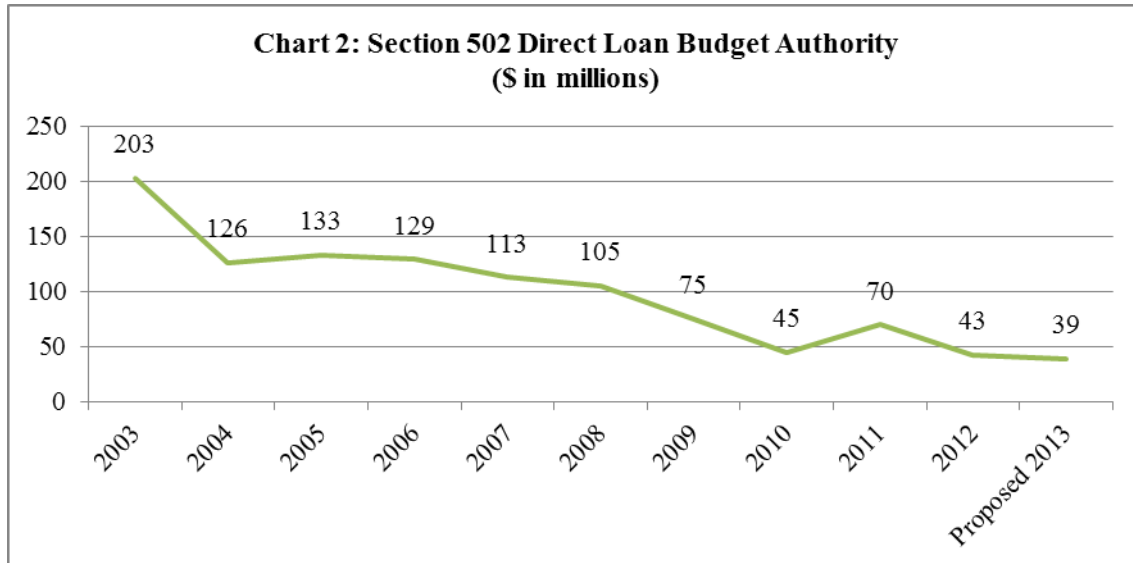
President Obama’s FY13 Budget Request continues this trend by proposing deep cuts to the Budget Authority for Rural Housing Service programs, slashing the program levels for several highly successful programs – including Section 502 Direct Loans and Section 523 Mutual Self-Help Housing – and eliminating Section 515 Rural Rental Housing.

Between FY03 and FY12, the Budget Authority for selected USDA Rural Housing Service programs was cut by more than \$318 million – or 63 percent – from \$503 million to \$185 million. President Obama’s FY13 Budget Request proposes to cut another \$36 million in Budget Authority for these programs. If approved by Congress, the Budget Authority for selected Rural Housing programs would be 70 percent lower than FY03 levels (Chart 1).



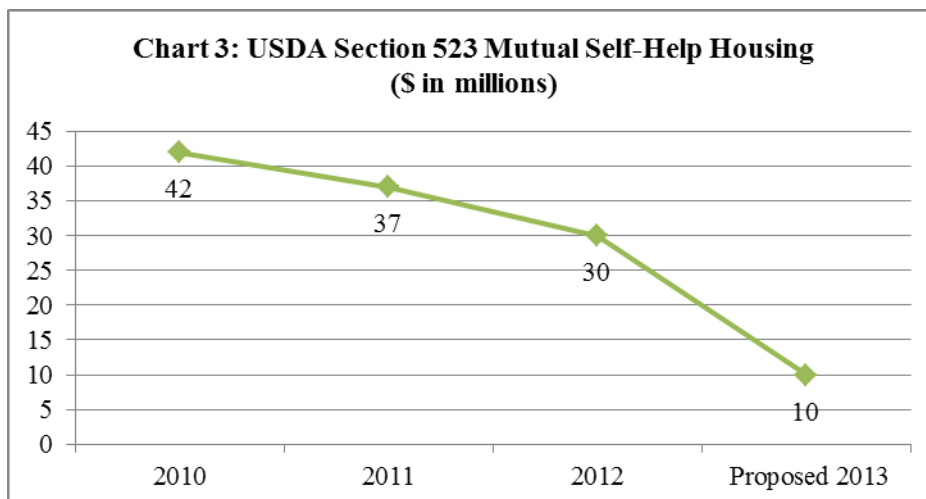
For example, the Budget Authority for Section 502 Direct Loans was slashed by nearly 80 percent between FY03 and FY12, from \$203 million to only \$42.5 million. Since 2010 alone, program levels have also been cut by nearly 20 percent, from \$1.1 billion to \$900 million. In FY13, both the President and House proposed an additional 42 percent reduction, bringing program levels to its lowest in 40 years (Chart 2).

If approved, 4,090 fewer families will be able access affordable and sustainable mortgages compared to FY10, creating 7,158 fewer jobs and \$205 million less in local income.



Likewise, between FY10 and FY12, the Section 523 Mutual Self-Help Housing program was reduced by more than 28 percent, from \$42 million to \$30 million. While the House proposed a 50 percent cut in FY13 to bring programs levels to \$15 million, the President has gone further and proposed to decrease the program to only \$10 million – a 67 percent one-year reduction. If the President’s FY13 Budget Request is approved by Congress, the program will have been cut by more than 76 percent since FY10 (Chart 3).

As a result, 50 rural housing organizations that currently provide Self-Help Housing assistance would have to close down. More than 600 fewer families, compared to FY10, will be able to build their own home under the program, resulting in 1,973 fewer jobs, \$128.5 million less in local income, and \$13.4 million less in local tax revenue. These budget cuts come on top of increased demand for the program, including more than 50,000 families that are currently on the program’s wait list.





USDA's Section 515 Rural Rental program has also been hard-hit. Between FY03 and FY12, the program's Budget Authority was reduced by 60 percent, from \$54 million to \$22 million. In FY13, the House proposed a 50-percent cut to bring levels down to only \$11 million, and the President has proposed to eliminate the program entirely. At this time, more than 7.8 million rural residents—including 19 percent of all rural children—live in poverty and almost 1 million rural renters live in substandard housing.

Despite the critical role that USDA's Section 521 Rental Assistance plays in ensuring that rural America's most vulnerable households have a clean, decent, and affordable place to live, Congress has reduced program levels by \$76 million between 2010 and 2012. While the President proposes to flat fund the program at FY12 levels, the House has proposed to cut the program by another \$17 million dollars. As a result, 21,227 rural families, compared to FY10, will not be able to afford living in decent, healthy housing.

Finally, while the Obama Administration proposed a modest increase for Section 514/516 Farm Labor Housing programs and the House proposed flat funding to FY12 levels, both budgets remain far below the demand for these programs. Today, farmworkers have the worst housing needs of all rural people. More than 60 percent of the 3 million farmworkers in the U.S live in poverty – a rate 5 times the national average.

Chronic underfunding is compounded by the fact that rural communities already receive disproportionately less federal funding than urban areas. In 2010, rural communities received \$683 less in federal funding per capita than urban areas, amounting to a difference of \$34.4 billion dollars. This gap has more than doubled since 2009.<sup>i</sup>

In addition, rural communities have difficulty accessing federal housing programs at the Department of Housing and Urban Development (HUD) and other key departments. Caught in a donut hole, rural communities are often too small to attract other agencies' attention. For example, rural communities receive only 14 percent of the federal government's largest rental assistance programs – Section 8 Housing Choice Vouchers, Public Housing, and Multi-Family Assisted units.<sup>ii</sup> Only 1 in 7 HUD-assisted households – or 14 percent – are in rural areas.<sup>iii</sup>

Because rural housing funding leverages other housing and community development resources, the impact of underfunding is magnified. While 13 percent of all housing units financed by the Low-Income Housing Tax Credit have historically been located in non-metro areas, 30 percent of these units also depended on Section 515 Rural Rental Housing funds.<sup>iv</sup> Yet, over the past decade, funding for Section 515 has decreased significantly, and in FY13, the President's Budget Request proposed eliminating the program entirely. This means that if the President's Budget Request is approved by Congress, it would place enormous obstacles before rural communities in accessing LIHTC funds.



### **Shift in Focus to Loan Guarantees**

Over the past decade, USDA has shifted the focus of its rural housing programs away from Section 502 Direct Loans in favor of its Section 502 Guaranteed Loan program. This policy shift has had a significant and negative impact on lower-income rural families, who are largely unable to access the loan guarantee program. While guaranteed loans are inexpensive to taxpayers – a feature that is especially attractive in light of the recent economic crisis and renewed interest in deficit reduction – the program has very limited utility in rural areas where residents have inadequate access to mortgage credit. Ultimately, the Section 502 Guaranteed Loan program fails to reach smaller, poorer, more remote rural communities, and it simply cannot address the unique needs of many low-income rural families.

Unlike USDA's guaranteed loan program, the Section 502 Direct Loan program is exclusively targeted to very low- and low-income families who are otherwise unable to access affordable mortgage credit. Two-thirds of all Direct Loan borrowers have incomes below 60 percent of the Area Median Income (AMI). And, by law, at least 40 percent have incomes that do not exceed 50 percent of AMI.<sup>v</sup> The Section 502 Guaranteed Loan program, on the other hand, primarily serves moderate-income families living in closer proximity to metro areas, with better access to mortgage credit, and earning between 80 and 115 percent of AMI. In fact, the average Section 502 Guaranteed Loan borrower earned more than \$50,000 in 2010, nearly twice the average income of Section 502 Direct Loan borrowers (\$27,000). For this reason, the USDA Economic Research Service has held that the Section 502 Guaranteed Loan program is the "least-targeted rural development program."<sup>vi</sup>

The Section 502 Direct Loan program's success in reaching low-income families is largely due its ability to provide subsidized interest rates as low as just 1 percent. In doing so, the program expands access to credit to some of rural America's lowest-income families. Because the Section 502 Guarantee program does not subsidize interest rates, it is unable to reach the same profile of Direct Loan borrowers in terms of income levels and geography.

### **Staff Reductions and Local Office Closures**

USDA's network of local field offices is critical to its efforts to help low-income, rural families to access affordable housing opportunities under its various programs. Local field offices are more convenient for rural residents who may not have the means to travel long distances for assistance. In addition, local USDA staff has a more in-depth understanding of the unique challenges facing residents in their communities.

Until the early 1990s, the Farmers Home Administration – predecessor to today's Rural Housing Service – had more than 2,800 offices in almost all of the 2,000 rural counties under its jurisdiction. By 2010, however, the number of field offices had been dramatically cut back to



only 815 offices. In FY13, in an effort to reduce costs, USDA has proposed closing an additional 259 local offices throughout the nation, including 43 area Rural Development offices in 17 states.

Closing local offices has had a significant impact on USDA's Section 502 Direct Loan program by compounding the agency's failure to adapt the program to technological and commercial changes in the mortgage industry – including the availability of instant credit reports, access to high-speed internet, the ability to share documents electronically, the creation of the home inspection industry, and the rise of the real estate appraisal industry. While the rest of the mortgage industry has embraced these advances in order to better serve borrowers, the Section 502 Direct Loan program has been left behind.

While nearly everyone agrees that this out-of-date loan processing system must be reformed, USDA has failed to take simple steps to move in that direction. None of the measures adopted by the agency to improve its review and processing of Section 502 Guarantee Loans has carried over to the Direct Loan program, including modernizing the underwriting system, shifting to electronic processing, and allowing private lenders to easily package loans. USDA Guaranteed Loans can be approved in as little as 24 hours, while Section 502 Direct Loan borrowers often wait 6 months or more.

Because local USDA staff still process Section 502 Direct Loan applications by hand and because little has been done to make processing requirements and procedures more consistent, closing local USDA offices threatens the ability for low-income rural families to access these critical loans. At a minimum, the future success of the program depends on a renewed commitment by USDA and Congress to modernize and streamline the rural housing loan delivery system and to stop unnecessary office closings and staff reductions.

### **Conclusion**

USDA's rural housing programs – including Section 502 Direct Loans, Section 523 Mutual Self-Help Housing, Section 515 Rural Rental Housing, Section 514/516 Farm Labor Housing, and Section 502 Guaranteed Loans – have been quite effective in meeting rural housing needs. Because these programs can successfully respond to the rural landscape, NRHC strongly recommends that they serve as a model for future rural housing policy.

Additionally, to strengthen the ability for rural housing programs to better serve low-income, rural families, Congress must reverse the trend of declining levels of federal support, reprioritize direct homeownership loan programs, modernize and streamline the direct loan delivery system, and stop unnecessary office closings and staff reductions.



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<sup>i</sup> U.S. Department of Agriculture, Economic Research Service, 2010 Federal Funds data from the U.S. Census Bureau, located at <http://www.ers.usda.gov/Data/FederalFunds/> (last visited May 2, 2012).

<sup>ii</sup> Center on Budget and Policy Priorities, "HUD Rental Assistance in Rural and Urban Areas." February 13, 2012, located at <http://www.cbpp.org/files/RentalAssistance-RuralFactsheetandMethodology.pdf> (last visited May 2, 2012).

<sup>iii</sup> Center on Budget and Policy Priorities, "HUD Rental Assistance in Rural and Urban Areas." February 13, 2012, located at <http://www.cbpp.org/files/RentalAssistance-RuralFactsheetandMethodology.pdf> (last visited May 2, 2012).

<sup>iv</sup> Abt Associates, Inc. "HUD National Low Income Housing Tax Credit (LIHTC) Database: Projects Placed in Service Through 2004." December 20, 2006.

<sup>v</sup> U.S. Department of Agriculture, "Rural Housing Service Section 502 Rural Homeownership Direct Loan Program: A Guide For Applicants," located at <http://216.92.48.246/pubs/guides/502/homeowner3.htm> (last visited June 7, 2012).

<sup>vi</sup> Richard Reeder, U.S. Department of Agriculture, "Geographic Targeting Issues in the Delivery of Rural Development Assistance," Economic Research Service, April 2010, located at <http://www.ers.usda.gov/Publications/EIB65/EIB65.pdf> (last visited May 7, 2012).