

Statement of Peter Carey
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before the Committee on Financial Services,
Subcommittee on Insurance, Housing,
and Community Opportunity
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Thank you for this opportunity to testify about the proposed FHA-Rural Regulatory Improvement Act of 2011. I am Peter N. Carey, President and CEO of Self-Help Enterprises (SHE). I have worked in rural housing for almost 40 years and have directed SHE since 1990. I have extensive experience using both USDA and HUD programs to produce single-family and multifamily housing for low-income rural residents. I serve on the boards of directors of the Housing Assistance Council (HAC) and the National Rural Housing Coalition (NRHC). This testimony is delivered on behalf of all three organizations.

SHE, HAC, and NRHC are among the foremost local and national rural housing organizations in the country. Self-Help Enterprises is a regional nonprofit housing and community development organization serving eight counties in California's agricultural San Joaquin Valley, where about one-quarter of the nation's farmworkers live. The Housing Assistance Council provides financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing around the country. The National Rural Housing Coalition is a national membership organization that conducts research, policy analysis, and advocacy on federal rural housing programs.

The draft bill before the Subcommittee would move the housing programs of the U.S. Department of Agriculture's Rural Housing Service (RHS) to the Department of Housing and Urban Development (HUD). Such a move would not improve administration of the rural housing programs, would not help accomplish the mission Congress established them to deliver, and would make it more difficult for USDA to deliver its other rural development programs effectively.

USDA Rural Development and the Rural Housing Service are certainly not perfect. For example, some agency processes could be streamlined and coordination with other funding sources could be improved. RHS has taken steps to strengthen its partnerships with nonprofit rural housing providers, but could do more. USDA's attention to housing issues could be increased. Moving the rural housing programs from one department to another, however, would not address these issues and would create significant additional challenges for the improvement of rural housing conditions.

RURAL HOUSING SERVICE ACHIEVEMENTS

Congress created RHS's predecessor, the Farmers Home Administration, in the Housing Act of 1949 to help fulfill the Act's promise of "a decent home and a suitable living environment for every American family." The programs created by Title V of that Act, or added to it later, are

available to low- and very low-income residents of rural areas, defined roughly as places with populations under 20,000. Most of these programs' aid goes to people in places under 10,000 population.

Direct Homeownership Loans

The agency's flagship program, the Section 502 direct loan program, enables low- and very low-income rural residents to purchase homes with affordable, fixed rate mortgages. The interest rate on a Section 502 loan can be as low as 1 percent, and no down payment is required. Inability to qualify for market-rate credit elsewhere is a precondition for obtaining a Section 502 direct loan – thus the program's borrowers are homebuyers who might have resorted to unsustainable predatory loans if Section 502 loans were not available.

Over two million families have become homeowners since 1950 through the Section 502 direct program. In 2009, the average income of Section 502 direct loan borrowers was about \$26,600. Sixty percent of the borrowers in 2009 and 2010 had incomes at 60 percent of area median or less, and 40 percent had very low incomes (50 percent of area median or less). Yet this is a loan program, not a giveaway; the funds are repaid to USDA, with interest. The foreclosure rate for Section 502 direct loans is only 4 percent, better than the rate for conventional mortgages or Federal Housing Administration (FHA) loans.

In 2010, RHS made about 10,000 Section 502 loans. The total cost per loan to the government for a Section 502 loan is an impressively low \$5,000 (this figure does not include salaries and expenses for USDA employees).

Self-Help Housing

Significant homeownership opportunities are offered through the Section 523 mutual self-help program. Currently, more than 100 organizations across America participate. Groups of eight to 12 families work together to construct their own and their neighbors' homes, providing 65 percent of the construction labor and working hundreds of hours on evenings and weekends. Their work enables them to move in with substantial "sweat equity." Most self-help participants obtain low-cost mortgages through the Section 502 direct loan program.

Self-help families have the lowest rates of default and delinquency among Section 502 borrowers. Over the last three years, self-help housing organizations have constructed about 3,500 homes. This construction has supported over 11,000 jobs and contributed more than \$738 million in local income and \$77 million in taxes and revenue in rural communities across the country.

Guaranteed Homeownership Loans

Adding to the successes of the Section 502 direct loan program is the Section 502 guaranteed loan program, through which USDA guarantees loans made by banks at market interest rates. The guarantee program assists homebuyers whose incomes are somewhat higher than those who use the Section 502 direct program – \$46,700 in 2009 – but not high enough to qualify them for standard mortgages.

Rental Housing

USDA finances rental housing as well. The Section 515 program has made loans directly to nonprofits, for-profits, and partnerships to develop more than half a million units of rental housing for low- and very low-income tenants. As of April 2010 the average annual income of Section 515 tenants was \$11,000. More than half of these tenants are elderly or disabled.

The Section 514/516 program provides loans and grants to developers of rental housing for farmworkers, whose incomes are not only low but are also often irregular. RD has funded more than 38,000 farmworker rental housing units. These decent, affordable homes, available to both migrant workers and non-migrants so long as they are U.S. citizens or are working legally in this country, are a significant improvement over the crowded or ramshackle buildings that may be available otherwise, or the tents and cars that still provide shelter for many migrant farmworkers.

Other Programs

In addition to these major programs, USDA's rural housing arsenal includes loans and grants for low- and very low-income homeowners whose homes need repairs to meet basic safety codes, rental assistance for tenants in USDA-financed properties, aid to owners of rental properties that need repairs or renovations, and more.

Field Offices

This variety of assistance is offered through field offices designed to be accessible to rural Americans. USDA's Rural Development mission area has 47 state offices and 560 field offices serving all 50 states and the U.S. territories. Until the early 1990s the Farmers Home Administration had offices in almost every one of the 2,000 rural counties in the country. Congress, through the Department of Agriculture Reorganization Act of 1994, required restructuring of USDA's rural housing and community development functions and consolidation of some locations and employees. Field staff now offer housing, utilities, and business programs from a more efficient, yet still localized, network of offices.

Through its field offices, RHS understands communities that traditional lenders never see. Agency staff share their communities' development goals. For example, over the last two decades in California we have seen a remarkable partnership between RD, nonprofits, and for-profits. All entities have been dedicated to improving housing in rural communities with persistent needs.

HUD EXPERIENCE WITH RURAL ISSUES

While there are concerns about USDA's attention to housing, we have equally grave concerns that HUD's structure is not set up to administer the Title V programs.

HUD has limited experience administering programs that are directed exclusively to rural areas. The Rural Housing and Economic Development program began in 1999 and received \$20-\$25 million per year until it was terminated at the end of fiscal year 2009. In 2010 a new Rural Innovation Fund program was created, but it did not receive funding in FY 2011. The Housing

Assistance Council is a rural program at HUD, with HAC serving as an intermediary that helps HUD staff deliver aid to rural communities.

Most of HUD's other programs can be used in rural areas as well as in larger towns and cities. The design of most HUD programs, however, as well as the department's office structure, are urban-oriented. Large programs like HOME and the State Administered Community Development Block Grant are intended to reach rural areas through state government agencies. Yet historically HOME, CDBG, and FHA have spent lower proportions of their funds in rural areas than the proportion of population living there.

HUD has never had a direct homeownership lending program like Section 502, and has not made direct loans to developers, as USDA does under the Section 515 program, since 1973. HUD's experience is in delivering block grants, guarantees and rental subsidies, not mortgage loans. It works through others: local governments, state and tribal governments, developers, banks, intermediary organizations, and public housing authorities. In short, while the loans and grants offered by many of the Title V programs are retail items, HUD is a wholesaler, not a retailer.

Because its program delivery has not required a network of field offices outside major metropolitan areas, HUD does not have the office infrastructure needed for the Title V programs. In my state of California, HUD has six field offices, located in Fresno, Los Angeles, Sacramento, San Diego, San Francisco, and Santa Ana. USDA Rural Development has a state office in Davis and 18 local offices. I can drive less than 10 minutes from my office in Visalia to reach the local USDA RD office, but staff in HUD's Fresno office do not handle program funding, so to meet with HUD staff I must travel 250 miles to either San Francisco or Los Angeles.

The difference is even more dramatic in states with fewer large urban centers. In Illinois, for example, HUD has offices in Chicago and Springfield, while Rural Development has a state office in Champaign, 12 field offices, and two work stations. In West Virginia, HUD has an office in Charleston. Rural Development has a state office in Morgantown, four area offices, and seven sub-area and satellite offices.

The dollar amount involved would not provide a significant incentive for HUD to increase its capacity to deliver rural programs. The entire RHS budget, including salaries and expenses, is about \$2 billion. It comprises around 10 percent of USDA's entire budget of about \$20 billion, but would be less than 5 percent of HUD's \$42 billion budget.

IMPACTS OF TRANSFERRING RURAL HOUSING PROGRAMS

Interaction with Other USDA Programs

Housing improvement is inextricably intertwined with the other community improvement efforts administered by USDA's Rural Development mission area: rural community facilities, rural businesses and cooperatives, and rural utilities. RD's programs address all these facets of rural development efforts, and RD's staff understand the relationships among them. Decent, affordable housing relies on the presence of good water and wastewater systems, and business development relies on the presence of decent, affordable housing for workers. Removing the rural housing programs from USDA would create a silo effect that would damage efforts to improve local economies in rural communities.

Office Delivery System

Accommodating the retail nature of the Title V programs would require HUD to shift dramatically the way it does business. Given the many demands on federal spending at this time, it seems more likely that the rural housing programs would be forced to fit into the HUD delivery system, eliminating the programmatic and operational features of RHS that are essential for the Title V programs to meet their mission.

The low-income rural residents served by the Title V programs cannot be expected to travel to major urban centers to learn about and apply for housing assistance. Repeatedly finding transportation and taking time off work are daunting for low-income people even in cities, and more so in rural places, especially in remote areas or in those with cultural differences such as American Indian lands and farmworker communities. Few rural residents can apply online, since they often lack computers or fast and reliable internet access, and even if community centers or libraries have internet availability, those places are often many miles away. Telephone access is usually not enough; it is very difficult to provide explanations and take applications by phone. Realistically, then, local offices staffed by local residents with knowledge of local habits and culture are the only way to reach the people for whom the Title V programs are intended.

Management of the multifamily rural housing portfolio also relies on the field office network. RD field staff are familiar with local market conditions, a critical advantage in underwriting and determining the feasibility of new construction or rehabilitation proposals. Field staff often have long-term knowledge of each project in the portfolio and become aware of operational, financial, or physical condition issues more quickly than if they were in a central location. Typically, RD projects are small – less than 30 units – and located in spread-out rural areas, making it expensive to hire contractors for asset management services.

Since RD projects are so small, the project owners are often “mom and pop” entities that require more “hands-on” supervision by the government. Larger projects are more often developed, and managed, by sophisticated entities that may be more familiar with agency requirements. Again, RD’s field structure is beneficial in that it facilitates the use of “hands-on,” localized project oversight.

Finally, removing housing functions from Rural Development field offices would not eliminate the need for those offices. Staff would still be administering USDA Rural Development’s utilities and business programs, and many local RD offices are co-located with offices of other USDA divisions such as the Farm Service Agency. These offices provide a range of services to rural communities and are the only places that a family, a home builder, a small town mayor, and a farmer can go to get assistance and advice from the federal government.

Time, Expense, and Priorities

While Congress and the taxpayers are concerned about the recent increase in federal domestic spending, rural housing and community development programs have not seen an increase. Indeed, with the exception of added amounts under the American Recovery and Revitalization Act, their appropriations have been declining for several years. In FY 2003, spending on rural housing loan programs totaled \$342 million. In FY 11 it is \$150.3 million. If Congress freezes

the rural housing loan programs for FY 12, their budget authority will still be less than half the amount in FY 2003.

Moving a \$2 billion agency from one department to another is a significant task that would be expensive and would take time to accomplish. Rural Americans, like our urban and suburban neighbors, face great economic challenges. The poverty rate in California's San Joaquin Valley, part of the richest agricultural area in the world, is about 20 percent. Some other rural areas suffer even higher poverty rates. Throughout rural areas there is meager economic growth and a crying need for affordable housing, clean water, and economic opportunity. Over the last two decades, appropriations for rural development have plunged. The taxpayers' money and the government's time would be far better spent making smaller changes to improve the programs within USDA, rather than creating new challenges that must be met before program function can be addressed.

The cost in money and human capital to make such a move would be mind-boggling. Over 600 people and the attached infrastructure would have to be moved. Staff who are familiar with HUD programs and delivery systems would require significant training to understand the characteristics of rural housing programs such as the large vacancy rate changes in housing for seasonal farmworkers. Inevitably, over the 18 or more months likely to be needed for such a move, service delivery would be disrupted for American families who are already struggling.

There is no doubt that RHS can and should do better. There is also no doubt that HUD lacks the administrative system to deliver rural housing programs. Its programs, constituency, and interests lie elsewhere. Self-Help Enterprises, the Housing Assistance Council, the National Rural Housing Coalition, and hundreds of other rural housing organizations around the country would be happy to work with this Subcommittee to identify less expensive, more effective ways to address RHS's shortcomings and maximize its abilities.

We have no objection to the provisions of Section 14 of the draft, which would authorize fees for the Section 538 rental housing guarantee program, making the program self-supporting.

Thank you for the opportunity to testify before you today. Please do not hesitate to call on me for further information.