

NATIONAL RURAL HOUSING COALITION

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Housing in Rural America

November 18, 2016

Introduction

The purpose of this paper is to provide information on the status of federal rural housing and community development programs administered by the United States Department of Agriculture (USDA) within the Rural Development mission area. In many rural communities, the resources available through the Rural Housing Service (RHS) and the Rural Utility Service (RUS) are the only ones to provide decent affordable housing and improved water and waste disposal systems. In the past eight years, the Administration and Congress have reduced spending on these programs.

The central recommendation of this paper is for increased resources for meeting the needs of rural America's housing and water-wastewater disposal facilities. Rural communities, and the people who live in them, have higher poverty and unemployment rates as well as a higher incidence of substandard housing and rent overburden when compared to metropolitan areas. Virtually every community in the country with inadequate drinking water has a population of 3,300 or less. Although much of the country has seen recovery from the financial crisis, rural America still lags behind. Despite these terrible conditions, recent USDA budgets have reduced housing assistance for low income homeownership and rental housing and sought to shift financing of rural community facilities to the private sector.

Against this backdrop a new Congress and President-elect Trump, who will take office in January 2017, will have an opportunity to address rural housing and community development needs by investing in successful programs for affordable housing and infrastructure. For many rural families and communities, the assistance offered by USDA is an essential tool for improving housing conditions and achieving adequate water and wastewater facilities. Additional funding for these programs, which make up only 0.4 percent of federal non-defense discretionary spending, will increase rural homeownership, maintain and preserve affordable rental housing and accelerate improvements to rural community facilities.

Supporting these programs is about more than just better housing and water systems in rural America – these programs have a real impact on strengthening rural communities and the American economy. A 2014 report by the National Rural Housing Coalition (NRHC) found that \$1.3 billion in financing funded the construction, purchase or rehabilitation of 8,800 units of housing and improved access to clean and affordable water and wastewater systems for 491,462 families.¹ Further, these projects also generated almost \$380 million in economic activity, created over 40,000 jobs, and \$550 million in tax revenue.² These findings demonstrate that the programs that help rural residents access affordable quality housing and safe drinking water and wastewater systems have benefits far beyond the families directly assisted.

About the National Rural Housing Coalition

The National Rural Housing Coalition (NRHC) was founded in 1969 by a group of concerned rural community activists, public officials, and nonprofit developers to advocate for better housing and community facilities for low-income rural families. NRHC promotes and defends the principle that rural people have the right – regardless of income – to a decent, affordable place to live, safe drinking water and basic community services. NRHC works to focus policy makers on the needs of rural areas through direct advocacy and by coordinating a network of rural housing advocates around the nation.

Economic Characteristics of Rural America

If the recently concluded Presidential election revealed anything, it was that voters in small towns and farming communities in rural America view their economic circumstances with desperation and are eager for a better life for themselves and their families.

According to the 2010 census, approximately 65 million people, or 21 percent of the population, reside in rural areas or small towns. From 2000 to 2010, the population in rural and small town communities grew by 3.5 million people, a 5.6 percent increase. Most of the natural resources of America are located in the small towns and farming communities across the country. America depends on rural areas for the food, energy and water that are essential for our economic prosperity.

Rural areas continue to lag behind their urban counterparts on several indicators of economic well being. Since the 1960s, the poverty rate for nonmetropolitan counties has remained higher than the poverty rate for metropolitan counties. In many rural communities, recovery from the great recession is hard to find.

Compared to their metropolitan counterparts, households located in rural areas also have lower incomes, as a result of a high proportion of lower paying jobs requiring lower skill levels to perform, combined with a lower overall educational attainment level.

In 2012, the non-metropolitan median household income was \$44,974, which was well below the metropolitan median of \$52,988.³ The 2014 American Community Survey found that the poverty rate for non-metro areas was 18.1 percent, three percentage points higher than the metro poverty rate (15.1 percent) and according to American Community Survey, fully 15 percent of all households in non-metro area census tracts earn less than \$15,000 annually and nearly 36 percent earn less than \$30,000.⁴

Poverty in rural America remains a persistent problem; particularly in the nation's high need rural areas, central Appalachia, the Lower Mississippi Delta, the southern Black Belt, border colonias areas, and Native American lands. Rural counties make up the majority of the persistently poor counties in this country. The Economic Research Service (ERS) of USDA defines counties as being persistently poor if 20 percent or more of their population was poor over the last 30 years (measured by the 1980, 1990, 2000 censuses and the 2007-2011 American Community Survey). Of the 353 persistently poor counties, 301, or 85.3 percent, are non-metropolitan rural counties. More than 15 percent of all non-metropolitan counties are persistently poor, including more than 20 percent of all southern counties.

The Need for Affordable Housing in Rural America

A disproportionate amount of the nation's occupied substandard housing is located in rural areas. As reported by the Housing Assistance Council, the 2010 Census revealed that of the approximately 116 million occupied housing units available in the United States, 25 million units are located in rural and small communities.⁵ Over 5 percent, or 1.5 million, of these homes are considered either moderately or severely substandard.⁶

Homeownership is the most common form of housing. A home is the most valuable asset that most Americans, especially those who are low- and moderate-income, will ever own. Homeownership is the overwhelmingly preferred standard of housing in rural America, and the homeownership rate is higher in rural areas than non-metropolitan areas (72 percent compared to 66 percent in 2012). However, the equity rural Americans accumulate in their homes is generally less than the equity generated from homes in urban locales because rural houses are typically less expensive. For example, a 2016 report by Zillow found that between 2010 and 2015, the average home value in urban areas grew 28.4 percent, compared to just about 6.25 percent in rural areas.

Very poor households have the worst housing. A 2011 American Housing Survey found that extremely low-income households, those earning less than 30 percent of the Area Median Income, were more than three times as likely to live in inadequate housing. Inadequate housing means that the home either lacks complete plumbing facilities, has inadequate or no heat, has no or sporadic electricity or exposed wiring, and/or has maintenance and upkeep issues (such as leaky roofs, holes in floors or walls and rodents). The rate of substandard housing is more prevalent in rural and tribal areas. For example, tribal census tracts are five times more likely to lack or have incomplete plumbing and non-metro tracts are more than two times as likely to lack or have incomplete plumbing compared to metro tracts.⁷ Although most Americans take indoor plumbing and potable water at the tap for granted, it is unavailable to the 4 percent of rural occupied units.⁸ Over 10 percent (10.3 percent) of these units also have more than one occupant per room which suggests that inadequate units in rural areas are also likely to be overcrowded.⁹ In addition to these substandard conditions, affordability remains a major issue and about 50 percent of poor rural Americans have housing expenses that exceed half of their incomes.

Many rural renters pay too much for housing. The prevalence of homeownership in many rural areas has overshadowed the needs of rural renters and the importance of maintaining a healthy rural rental housing stock. According to a recent report by the Harvard Joint Center for Housing Studies, 41 percent (5 million households) of rural renters are cost-burdened, meaning they pay more than 30 percent of their income for housing costs, and 21 percent (2.1 million households) of rural households that rent pay more than 50 percent of income for housing. Additionally, almost one million rural renter households suffer from multiple housing problems; of these, 60 percent pay more than 70 percent of their income for housing. The preservation and new construction of affordable rental housing in rural areas is another crucial issue that needs to be addressed.

The rural population is aging and will have changing housing needs. Rural communities often have barriers, including long distances to health care services, limited or nonexistent transportation options and limited senior living facilities, which prevent or hinder rural seniors' ability to age in place. A 2014 report by the Housing Assistance Council found that there are 6.3 million occupied housing units in rural or small towns that house individuals over 65 years.¹⁰ A majority, 83.2 percent, of the seniors living in rural and small town communities reside in owner-occupied housing.¹¹ Further, 74.9 percent of households with at least one individual over the age of 65 have paid off their mortgages and own their homes outright.¹² While most seniors are satisfied with the current state of their housing, physical changes that come with aging may require modifications to the home so that they can continue to function independently. Some housing conditions, such as steep staircases, narrow hallways and outdated electric systems may not qualify as substandard on their own, but create unsafe living conditions for seniors.¹³

The Need for Modern Water and Sanitation Services

The American Community Survey found that almost 630,000 occupied households in the country lack complete plumbing facilities – meaning they do not have one of the following: a toilet, tub, shower or running water. Most of the people affected are the poorest of the poor or the elderly, and they usually live in rural areas with incomes below the federal poverty level. This issue is particularly prevalent in counties that contain American Indian Reservations.

Most violations of federal drinking water standards are made by small communities with limited resources to dedicate to compliance. Small and rural drinking water systems constitute nearly 85 percent of the 53,000 community water systems in America. With limited staffing and ongoing issues related to compliance with the Safe Drinking Water Act (SDWA), ineffective sustainable management and access to capital for improvements and repairs, these systems continue to have the highest violations of the SDWA. Additionally, there are over 12 million private wells in the United States today, serving approximately 43 million, or 15 percent of, Americans. The United States Geological Survey sampled

over 2,000 wells throughout the United States and found that 23 percent exceeded a health benchmark of at least one contaminant. Basic issues, like proper maintenance and well construction, are not completely understood by well owners and lead to the majority of incidences of bacterial contamination.

The 2013 EPA Drinking Needs Assessment indicated a national need of \$64.5 billion for small community water systems in the states, Puerto Rico and US Territories.¹⁴ This represents 17.4 percent of total national need and comprises some 41,000 systems (82.8 percent of all systems) and 24 million people (or 8.1 percent of the population).¹⁵ The need for improved water systems in American Indian and Alaska Native villages alone totals \$3.3 billion. Furthermore, according to the EPA 2012 Clean Watersheds Needs Survey, the total documented need for rural (defined as communities with populations of less than 10,000) wastewater facilities is \$32.9 billion.

Federal Programs at USDA

The two pillars of federal rural development policy for many, many years have been: increasing the quantity and quality of housing for low income families; and improving essential community facilities. In recent years these goals have been mostly left by the wayside in favor of sideshows such as securing private sector financing for rural development and flavor of the month policy initiatives. Today, there are fewer resources available for rural housing assistance (including direct homeownership loans; mutual and self-help housing; rural rental housing; home repair loans and grants; and farm labor housing) than there were in 2008.

Since the great recession, USDA has greatly expanded the homeownership loan guarantee program, increasing loan guarantees fourfold from \$5 billion to approximately \$20 billion annually. In Fiscal Year (FY) 2015, the Rural Housing Service financed the purchase, refinance or repair of over 148,000 of single family housing units through its direct and guarantee program. However, only 28,356 of those units provided housing for low- and very-low income homeowners: less than 20 percent of the households receiving USDA homeownership assistance. Further, USDA's own Economic Research Service found that the home ownership guarantee was the least well-targeted of the Department's guaranteed loan programs and had less utility for low income families living smaller, more remote rural communities.

Additionally, in FY 2015, RHS assisted 10,800 families through the purchase, renovation and preservation of 450 multifamily apartment complexes and provided 270,000 very-low income households with rural rental assistance.

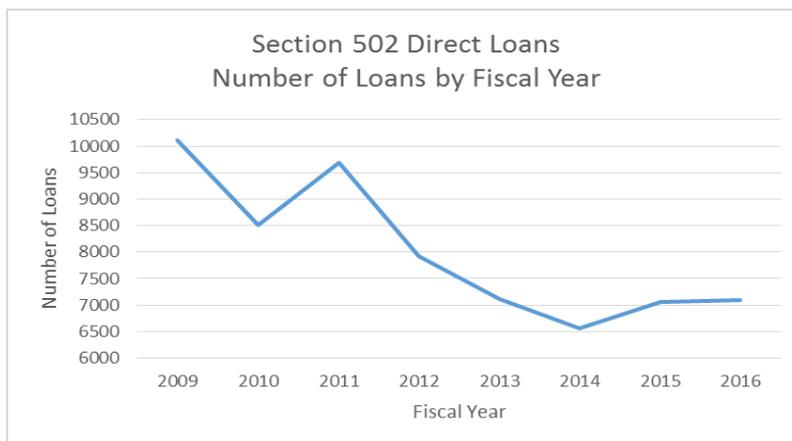
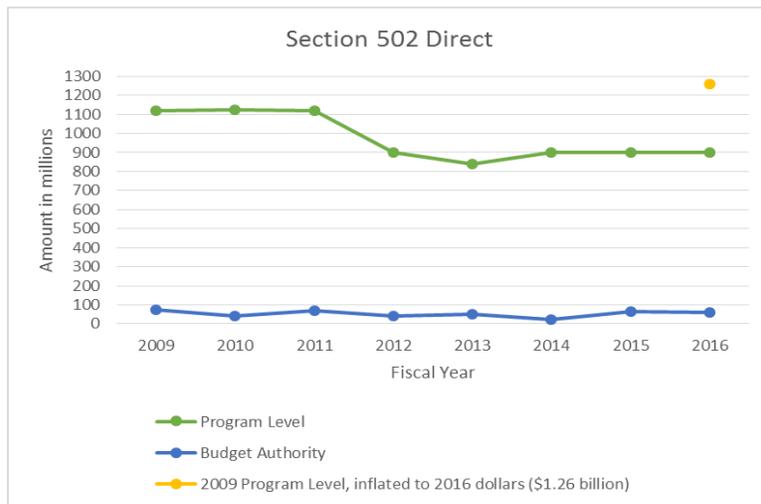
Key Program Profiles

The Housing Act of 1949 is a landmark piece of legislation which states that every American deserves a "decent home and a suitable living environment." Title V of the Act authorized the Secretary of Agriculture – originally through the Farmers Home Administration and now RHS – to provide loans and loan guarantees, grants and related assistance for homeownership, rental housing and farmworker housing.

Section 502 Direct Loans

The Section 502 Direct Loan Program is the only federal program targeting homeownership loan opportunities to low- and very-low-income rural households, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very low income. Since FY 2008, Section 502 Direct loans have been reduced from \$1.129 billion to \$900 million. If Section 502 Direct loans were simply adjusted for inflation from the 2008, the program level would total \$1.132 billion, almost \$250 million above the FY 16 level.

The Section 502 Direct Loan program cannot be replaced by any other program, including the Section 502 Guaranteed Loan program. Unlike the Guaranteed Loan program, the Direct program overwhelmingly serves families with lower incomes – with an average income of \$28,275, or half that of the Guaranteed Loan program (\$54,255) and by law 40 percent of the households receiving Section 502 Direct loans must be very-low income (incomes not exceeding the higher of 50 percent of the state wide non-metro median income or 50 percent of the area median income). Additionally, Section 502 Direct provides interest rate subsidies to better serve low income borrowers. Finally, with a 10 percent net delinquency rate and a 5.4 percent foreclosure rate, Section 502 direct loans perform on par with Federal Housing Administration loans (12 percent delinquency/4 percent foreclosure), which serve higher income borrowers. Section 502 Direct far outperforms the private subprime market (20 percent delinquency/14.5 percent foreclosure).



Since its inception, Section 502 Direct has provided loans to almost two million families at an extremely low cost to the federal government: less than \$10,000 in budget authority per unit. To put this number in perspective, a low income family receives a home for 33 years at a cost equal to one year's subsidy in the Housing Choice Voucher Program. In FY 2015 RHS provided 7,077 Section 502 direct loans totaling some \$900 million.

Section 523 Mutual Self-Help Housing

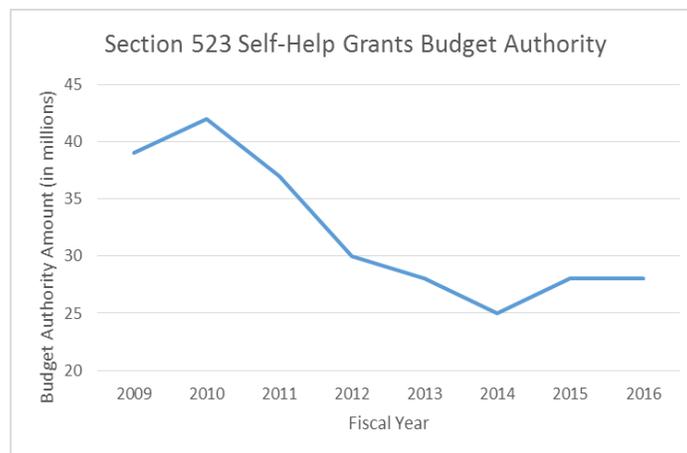
Self-Help Housing makes homes affordable by enabling very-low and low income rural Americans to build their homes themselves. Future homeowners use “sweat equity” to reduce the cost of homeownership by up to 30 percent while learning construction skills. Qualified nonprofit and local government organizations may obtain Section 523 Self-Help Technical Assistance Grants to provide technical assistance to low and very low-income families who are building homes in rural areas utilizing the Section 502 Direct Loan Program. The Section 523 grant funds are used to assist eligible families in applying for mortgage loans and other funds to write down construction costs, provide pre-purchase homebuyer education, and supervise construction of the houses. Another aspect of the program allows for self-help rehab, which has participants involved in the repair process.

Currently 100 organizations in 36 states, Puerto Rico and the Marshall Islands participate in the Self-Help Housing program. Due to budget cuts, most organizations receiving grants have not seen an increase in eight years.

These organizations support groups of four to 12 Self-Help housing families who construct each other’s homes, performing approximately 65 percent of the construction labor. Through this “sweat equity,” each homeowner earns equity in his or her home, decreasing the mortgage cost burden to them. This enables very-low and low-income families the opportunity to own their home. At least 40 percent of the families participating in Self-Help housing programs have incomes at or below 50 percent of AMI.

Since the program’s inception, over 50,000 families have completed construction of their homes. Over half of Self-Help families are single-parent households with children, and 46 percent of participating families are minorities.

There are at this time some 50,000 families on waiting lists for Mutual Self-Help housing.



Section 504 and Section 533 Rural Single Family Housing Preservation

Because of the demographics of rural America – a population with a high percentage of low-income homeowners aging in place – the preservation of existing single family housing stock is essential. In many cases, these owners are cost-burdened, often on fixed incomes, and reside in communities that have not recovered from the recession at the same rate as their urban counterparts. The need for repair includes addressing deferred maintenance as well as improvements that enhance accessibility and include critical energy upgrades. Traditionally, USDA has operated two programs that are useful in addressing such needs: the Section 504 Loan and Grant program and the Section 533 Housing Preservation Grant

program. For over 30 years, the lifetime limit for Section 504 Grants has been \$7,500. Likewise, a borrower is required to obtain full title service (typically a mortgage on the home) on Section 504 Loans of \$7,500 or more.

The Section 504 Loan and Grant program provides funding for individual home repair and rehabilitation with an emphasis on the elderly. As mentioned above, the program has not increased its grant or loan limits for over 30 years, and is underutilized in parts of the country because of cumbersome loan application procedures and low reimbursement for packagers, issues that need to be addressed in regulation and procedures. The Section 533 Housing Preservation Grant program makes funds available to nonprofits that manage housing rehabilitation programs, and can be provided as loans and grants with program delivery costs compensated to the nonprofit.

These programs are particularly important for older adults that live in rural communities. Many rural seniors lack the financial resources necessary to make the modifications their homes need in order to remain safe and habitable. These seniors will not be able to address this concern, and thus will be unable to age in place, without USDA's single family housing preservation and renovation programs.

Rural Rental Housing and Section 521 Rural Rental Housing Programs

The USDA's Section 515 Rural Rental Housing Program is an invaluable tool for rural rental housing production, repair and preservation. Ninety-four percent of the tenants residing in USDA financed multifamily housing have very-low incomes, earning no more than 50 percent of the area median income. Additionally, 61 percent of all Section 515 households are headed by an elderly or disabled tenant, 30 percent are headed by persons of color, and 72 percent are headed by women. For many small rural communities, the rental housing financed by USDA is the only affordable rental housing available. Current Section 515 funding is less than \$30 million. The FY 2008 program level totaled \$98 million. While USDA has devoted more resources to preservation activities and vouchers, that amount is nonetheless wholly inadequate.

USDA faces a number of challenges in simply maintaining its current portfolio. The average age of the rural rental housing portfolio is 34 years. A 2004 USDA report indicated a 20 year \$2.6 billion cost for maintaining and preserving existing rural rental housing developments, which house almost 400,000 low-income tenants. In response to the report, Congress established a Multi-family Preservation and Revitalization (MPR) demonstration program.

In FY 2015 alone USDA financed the revitalization of 3,544 units of rental housing and has financed an estimated 25,000 units over the history of the program. Nevertheless, there has not been an adequate level of resources targeted to preserving the existing portfolio, and an updated USDA Report released in 2016 found that the USDA multifamily housing portfolio (including projects financed under Sections 514, 515, 538 and MPR) has a 20 year need for an additional \$5.596 billion in funding – double that of the original estimate made in 2004.

In addition, over the coming years it is expected that the trickle of maturing rental housing mortgages will become a flood. The USDA Section 515 loan portfolio currently includes some 13,829 properties with 416,396 units. USDA no longer finances new Section 515 properties so as existing Section 515 loans mature, rural communities across the country lose much needed affordable rental housing. According to the Housing Assistance Council's analysis of USDA data, rate of maturation and prepayment between 2016 and 2027 averages around 74 properties per year.¹⁶ However, the number of properties exiting the USDA portfolio skyrockets in 2028 to 407 per year, and averages 556 properties per year for the next five years (2028 through 2032).¹⁷ Between 2032 and 2050, an estimated 12,530 properties will mature or be prepaid, with the greatest loss, 927 properties with some 30,831 units exiting the portfolio, occurring in

2040.¹⁸ Additionally, it is important to note that while the wave of maturing mortgages is not predicted to occur until 2028, around 40 percent of USDA's multifamily housing portfolio is eligible to prepay.

The issue of maturing mortgages is important not only because of the potential loss of decent affordable housing to rural America, but also because of the impact on residents of these rental housing developments financed by USDA. Some 270,000 very-low income families, seniors and persons with disabilities reside in rural rental housing and receive Section 521 rental assistance, which makes up the difference between 30 percent of household income and the market rent. Under the law, rental assistance is limited to developments with a Section 515 or Section 514 mortgage. As those mortgages mature, rental assistance ends for the families. Notably, USDA's rental assistance program is a fraction of the cost of the U.S. Department of Housing and Urban Development's voucher program.

The Rural Housing Service needs a plan to retain this important asset for rural communities.

Not only must USDA devote additional resources to maintain and preserve the existing rural rental housing portfolio, there is a pressing need for new rental housing in rural America.

It will be difficult to finance new rental construction without a program like Section 515. When funded at a robust level, Section 515 loans were a key ingredient in attracting the Low Income Housing Tax Credit (LIHTC) to rural communities. As Section 515 funding has declined, so have LIHTC investments in rural communities. The amount of LIHTC investment leveraging Section 515 decreased by 85 percent from 1987 to 2010. This is because Section 515 plays an important role in attracting other housing resources to rural America. During 1995 to 2004, non-metro communities had 25 percent of the projects but only 13 percent of the units financed by LIHTC.

In recent years USDA has improved the management and administration of rural housing programs in general and in particular programs designed to preserve and maintain rental housing developments. The Department has developed more accurate analysis of the need and put in place policies and procedures that have resulted in expedited processing for the MPR requests. The Department also successfully worked with applicants to leverage other federal and state resources to finance the renovation and preservation of rural rental housing. The only impediment to accelerating the necessary preservation process is additional resources.

The rental assistance program is the principal tool for ensuring that rural rental and farm labor housing developments are affordable to very-low income families. In recent years, better analysis of long term costs and improved management has resulted in accurate forecasts of the amount necessary to maintain current tenants. In FY 2017 USDA requested \$1.405 billion for rental assistance. Since 2014 rental assistance funding has increased from \$1.1 billion to the FY 16 enacted level of \$1.39 billion. The number of households assisted has remained at approximately the same level at 285,000.¹⁹

Section 514 and 516 Farm Labor Housing Loan and Grant Program

According to the Farm Labor Survey of the National Agricultural Statistics Service, in 2012 there were 1,063,000 migrant and seasonal farmworkers in the United States, making up about a third of the U.S. agricultural labor force located primarily in California, Florida, Washington, Texas, Oregon, and North Carolina. Farmworkers, which also includes fishery workers, are among the most economically disadvantaged working groups in the United States and are the worst-housed of all rural people. According to the Economic Research Service, housing conditions for migrant and seasonal farmworkers have long been substandard and there has not been any improvement in recent years.

Section 514 and 516 are the only federal programs that provide affordable loans and grants to purchase, construct or repair rental housing for America's farm laborers. These funds may also be used to install

necessary facilities, including water and waste disposal systems. Under the programs, farmers, nonprofit organizations and local governments are eligible to receive low-interest loans. Public bodies – typically housing authorities – and nonprofit organizations may receive grants to cover up to 90 percent of development costs. Both Section 514 and 516 have been chronically underfunded and cannot keep pace with the increasing need. On average, these two programs finance only 600 units per year. Compare the production rate to the demand in Texas, where more than 99 percent of the state’s farm labor housing needs are unmet, and in California, where more than 800 families are currently on the waiting list for a single farm labor housing project.

Over the history of the program, USDA has financed some 36,000 units for a cost of \$1.27 billion. The level of funding for farm labor housing has steadily decreased over the years. Between FY 2009 and FY 2015, RHS awarded just 228 farm labor housing loans and grants totaling \$241,343,356.²⁰

The Importance of the Rural Nonprofit Delivery System

The current field office network for USDA’s rural development programs – housing, water and waste, and business programs – is far diminished from even a few years ago, and further diminished from the vast network of offices under Farmers Home Administration (FmHA). FmHA administered farm loan and rural development programs. While the farm loan programs were transferred, the existing rural development programs under FmHA, along with new authorities for broadband among others, remained within the Rural Development mission area of USDA. Today, the Rural Development mission area includes the Rural Housing Service, Rural Utility Service and the Rural Business Cooperative Service. The current field office network has between 400 and 500 regional and state offices and fewer than 5,000 full time employees. At its height, FmHA had more than 2,800 offices across rural America and more than 12,000 employees.

As a result of this downsizing, it is extremely difficult for USDA’s Rural Development and the Rural Housing Service to deliver uniform, timely assistance to rural residents and communities. That role has increasingly been filled by nonprofit organizations that provide technical assistance to households under the Section 502 intermediary packaging program, help families build their own homes through the Mutual Self-Help Housing Program, develop and manage rental and farmworker housing, and aid local governments and nonprofits through the Rural Community Development Initiative (RCDI).

The RCDI program is used to help nonprofit housing and community development intermediaries deliver programs of onsite training and technical assistance to local recipients who, in turn, develop and run projects benefiting their communities. Since 2009, USDA has awarded \$39 million to support 206 rural housing and economic development projects throughout Rural America financed through the RCDI program.

RCDI grants may be used to train local recipients to conduct programs for homeownership preparation and affordable housing development, job creation, business incubation, and entrepreneurship, micro-lending, asset-building, and child care provision. They may be used to help local recipients create new organizations, such as community development financial institutions, and strengthen existing organizations through strategic plan development, board training, financial management, technology improvements, and effective grant management and fundraising techniques. Recipients have received the training and hands-on assistance to leverage hundreds of millions of dollars in predevelopment, construction, and permanent financing and create tens of thousands of new jobs.

Nonprofit organizations are also key players in preserving Section 515 properties for the long term. However, there are a number of obstacles to nonprofits serving a greater role in owning and operating rural rental housing developments, including limited funding to finance ownership transfers, certain USDA policies and procedures, and limited information on the location and availability of Section 515

developments. A successful effort in preserving rural rental housing must incorporate changes in USDA policy and procedures to facilitate nonprofit ownership of rural rental housing.

There are many experienced nonprofit organizations that are and can be effective partners in delivering housing programs to the rural poor. But to have an effective rural housing program, USDA will have to engage more effectively and aggressively with nonprofit housing organizations.

To accomplish this, NRHC recommends the expansion of the RCDI, the Mutual Self-Help Housing program and the intermediary program for Section 502 loans, as well improved policies, procedures and resources for rental housing preservation and development of new housing.

Affirmatively Furthering Fair Housing Rule

The U.S. Department of Housing and Urban Development (HUD) adopted final regulations, Affirmatively Furthering Fair Housing (AFFH), for the Assessment of Fair Housing planning process that could have a far reaching impact on how limited federal resources for housing are allocated across rural America. AFFH makes it clear that states, cities, towns and counties who seek federal taxpayer funds for public initiatives must consider fair housing development. NRHC fully supports HUD's effort to address and eliminate housing discrimination and to ensure equal housing opportunities for all people, regardless of race, color, religion, sex, national origin, disability, and family status.

AFFH defines "affirmatively furthering fair housing" as "taking meaningful actions, in addition to combating discrimination, that overcome patterns of segregation and foster inclusive communities free from barriers that restrict access to opportunity based on protected characteristics. Specifically, affirmatively furthering fair housing means . . . transforming racially and ethnically concentrated areas of poverty into *areas of opportunity* . . . The duty to affirmatively further fair housing extends to all of a program participant's activities and programs relating to housing and urban development."²¹

It is certainly a laudable goal that, to the extent possible, investments in low income housing are to be made in "areas of opportunity." However, as the rule has been implemented, this goal has begun to disadvantage rural communities by directing investment elsewhere. Some states have already altered access to federal funding streams including HOME, the Community Development Block Grant (CDBG) and LIHTC by lowering priorities for communities that do not possess the employment, infrastructure, educational, economic, or transportation attributes that make them communities of opportunity. Such prioritizations can amount to redlining of rural areas in need of investment in housing and infrastructure. In many cases, the lack of data for rural areas compounds the problem.

NRHC recommends clarification that this rulemaking is not to be interpreted to exclude or disadvantage rural areas with demonstrated need for affordable housing.

NRHC Recommendations

- NRHC recommends increasing Section 502 direct loans to \$2 billion. This increase would cost approximately \$60 million in additional budget authority and provide loans to some 15,000 low income families, 40 percent of whom would be very-low income.
- The current funding level for Mutual Self-Help Housing Grants is \$27.5 million. The FY 2008 level was \$39 million. NRHC recommends an additional \$30 million for Mutual Self-Help Housing grants. These additional funds will allow USDA to double the program and provide housing opportunities to more than 50,000 low income families. This increase in funding would increase the total number of families participating in Self-Help housing to over 4,000 annually.

- The total available funding for Section 504 loans and grants in FY 2016 was \$55 million. NRHC recommends \$100 million equally divided for Section 504 Loans and Grants. NRHC further recommends increasing the lifetime limit for Section 504 Grants to \$15,000 and increasing the full title service requirement amount to \$15,000 for Section 504 Loans to account for the rising cost of home repair.
- The total available funding for the Section 533 Preservation Grant program was \$3.5 million in FY 2016. NRHC recommends \$30 million for Section 533.
- NRHC proposes \$100 million in new budget authority for rural rental housing activities. (\$50 million for Section 515 and \$50 million for activities authorized under the MPR.) The purpose of the additional funds is to refinance and rehabilitate projects with maturing mortgages and other steps necessary to preserve and maintain USDA's portfolio as well as develop new rental housing units. This amount should be principally targeted to activities authorized under Section 515 of the Housing Act and used in conjunction with other rental housing authorities. This funding could be used to finance the preservation of 7,500 existing units of rural rental housing that are in need of repair/renovation or 3,000 units of new rental housing in rural communities, or some combination thereof.
- NRHC recommends that, at minimum, future budgets should maintain funding for Rental Assistance for units currently under contract as well as include an increase to accommodate the proposed restoration of a new construction program for rural rental housing.
- NRHC recommends \$50 million each in Section 514 loans and Section 516 grants for farm labor housing.

The Need to Invest in Rural Water Infrastructure Programs

Not only do hundreds of thousands of rural families live in housing with inadequate plumbing, most violations of federal drinking water standards are made by small communities with limited resources available to dedicate to compliance. Small and rural drinking water systems make up a majority of the community water systems in America. Due to staffing, financial and managerial issues, these systems continue to have the highest violations of the SDWA. The national need for small community water systems in rural areas is in the billions.

Increasingly, rural and farming communities are hit hard by droughts. For much of California, the state's long drought has meant small inconveniences such as shorter showers and restrictions on watering lawns. But in two rural valleys, the Coachella southeast of Los Angeles and the San Joaquin to the north, farmworkers and other poor residents are feeling its impact in a far more serious way. For example, in Tulare County California, the heart of the state's agriculture industry, the county trucks in 3,000 gallons of non-potable water a day for some residents can fill drums and buckets for basic uses like flushing toilets.

As a candidate, President-elect Trump proposed to triple funding for EPA's Safe Water and Clean Water State Revolving Funds (SRFs). If enacted this would make \$6 billion available. While the SRF's are an important tool, the reliance on debt as the principle financing tool for most states limits their utility for small communities. As revolving loan funds, SRFs have limited utility for small systems, which have a low participation rate in these programs. While approximately 96 percent of all health-based violations occur in systems serving a population of less than 10,000, less than a third of the SRF outlays are directed at these same small systems. Small rural systems lack the economies of scale enjoyed by large urban systems, resulting in higher user fees and a reduced ability to self-finance improvements

As discussed above, USDA's Section 504 Loan and Grant program and the Section 533 Housing Preservation Grant program provide much needed assistance to help rural homeowners make necessary repairs to their homes. Owner-occupied single family homes are part of the backbone of the infrastructure in rural American communities. Since the 1950s, the Section 504 Home Repair Loan program has been used to assist more than 190,000 rural families to address safety concerns and modernize and improve their homes. In 2015 alone, this program resulted in 2,510 loans totaling \$15.1 million. The average loan size was just \$6,027. In 2015, the average Section 504 grant was just \$6,133, and there were a total on 4,728 grants issued. In 2014, the HPG program was used to assist 1,341 rural families improve their quality of housing. These programs together can provide critical assistance to shore up this infrastructure.

For example, after visiting the drought-ravaged San Joaquin Valley in the spring of 2014, Secretary Vilsack asked for ideas to use existing USDA programs creatively to help with the crisis. Self-Help Enterprises (SHE) proposed moving some unused grant funds into the Section 533 Housing Preservation Grant (HPG) program, which provides flexibility in solving critical needs on eligible owner-occupied properties. In addition to providing basic health and safety improvements to homes, SHE was able to use HPG to drill onsite water wells for families whose old wells had run dry.

With an expanded grant of \$400,000 in the 2015 Fiscal Year, SHE assisted 23 households with such improvements, leveraging an additional \$370,000 in other funds. A smaller \$200,000 HPG grant was awarded to SHE in 2015, which is still being used in combination with other sources (so far, three families have been assisted).

In order to improve both drinking water and substandard housing due to inadequate plumbing, NRHC recommends that 20 percent of the budget authority for EPA be transferred to the USDA for use in its water and waste disposal loan and grant program and Sections 504 and 533. The programs have proved successful in improving combatting substandard housing and improving drinking water and waste water systems.

USDA's Water and Sewer loan and grant financing program is a key component of economic development in rural America. Every water and wastewater construction dollar generates nearly \$15 of private investment and adds \$14 to the local property tax base. The agency boasts a portfolio of more than 18,000 active water/sewer loans, more than 19 million rural residents served, and a delinquency rate of just 0.18 percent.²² This success is partly attributable to the field presence RD has historically maintained in rural areas. With staff in field offices throughout the country, RD is uniquely positioned to evaluate the credit-worthiness of small utilities and can distribute federal funds quickly and efficiently to areas of need. In drought years, or after natural disasters, community leaders benefit from being able to turn to a local RD staffer whom they know and trust and who is familiar with their system and its needs, though recent staff reductions in RD offices nationally have started to hinder the ability of RD to serve rural communities with these critical services.

¹ "Impact Report: the Economic and Human Impact of Nonprofit Organizations on Rural America," the National Rural Housing Coalition. 2014, <http://ruralhousingcoalition.org/wp-content/uploads/2014/12/2014-Impact-Report-and-Success-Stories-FINAL.compressed-1.pdf>. The report outlined the findings of a survey conducted by NRHC of nonprofit, rural housing organizations that serve low-income families in rural areas throughout all 50 states, Puerto Rico and the U.S. Virgin Islands, and looked at the organizations' activities for FY 2013.

² "Impact Report: the Economic and Human Impact of Nonprofit Organizations on Rural America," the National Rural Housing Coalition. 2014, <http://ruralhousingcoalition.org/wp-content/uploads/2014/12/2014-Impact-Report-and-Success-Stories-FINAL.compressed-1.pdf>.

³ "Income," *Rural Poverty & Well-being*, USDA Economic Research Service. Last updated July 8, 2016. <http://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/income.aspx>.

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- ⁴ Sonali Mathur, “Are Renters and Homeowners in Rural Areas Cost-Burdened?” *Housing Perspectives*, Joint Center for Housing Studies of Harvard University. Published August 11, 2016. <http://housingperspectives.blogspot.com/2016/08/are-renters-and-homeowners-in-rural.html>.
- ⁵ “Housing Occupancy & Vacancy in Rural America,” *Rural Research Brief*, Housing Assistance Council. May 2012. http://www.ruralhome.org/storage/research_notes/rn-housing-vacancy-web.pdf.
- ⁶ “Housing in Rural America,” *Taking Stock: Rural People, Poverty and Housing in the 21st Century*, Housing Assistance Council. 2012 http://www.ruralhome.org/storage/documents/ts2010/ts-report/ts10_rural_housing.pdf.
- ⁷ “The State of the Nation’s Housing 2016,” Joint Center for Housing Studies of Harvard University. 2016. http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_2016_state_of_the_nations_housing_lowres.pdf.
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- ⁹ Sonali Mathur, “Are Renters and Homeowners in Rural Areas Cost-Burdened?” *Housing Perspectives*, Joint Center for Housing Studies of Harvard University. Published August 11, 2016. <http://housingperspectives.blogspot.com/2016/08/are-renters-and-homeowners-in-rural.html>.
- ¹⁰ “Housing an Aging Rural America: Rural Seniors and their Homes,” the Housing Assistance Council. October 2014, <http://www.ruralhome.org/storage/documents/publications/rrreports/ruralseniors2014.pdf>
- ¹¹ “Housing an Aging Rural America: Rural Seniors and their Homes,” the Housing Assistance Council. October 2014, <http://www.ruralhome.org/storage/documents/publications/rrreports/ruralseniors2014.pdf>
- ¹² “Housing an Aging Rural America: Rural Seniors and their Homes,” the Housing Assistance Council. October 2014, <http://www.ruralhome.org/storage/documents/publications/rrreports/ruralseniors2014.pdf>
- ¹³ “Housing an Aging Rural America: Rural Seniors and their Homes,” the Housing Assistance Council. October 2014, <http://www.ruralhome.org/storage/documents/publications/rrreports/ruralseniors2014.pdf>
- ¹⁴ Defined as serving 3,300 and fewer persons.
- ¹⁵ “Drinking Water Infrastructure Needs Survey and Assessment: Fifth Report to Congress,” United States Environmental Protection Agency. April 2013. <https://www.epa.gov/sites/production/files/2015-07/documents/epa816r13006.pdf>.
- ¹⁶ “Maturing USDA Rural Rental Housing Loans: An Update,” *Rural Policy Note*, Housing Assistance Council. August 29, 2016. http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.
- ¹⁷ “Maturing USDA Rural Rental Housing Loans: An Update,” *Rural Policy Note*, Housing Assistance Council. August 29, 2016. http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.
- ¹⁸ “Maturing USDA Rural Rental Housing Loans: An Update,” *Rural Policy Note*, Housing Assistance Council. August 29, 2016. http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.
- ¹⁹ The number of households receiving rental assistance averaged about 270,000 annually for 2013-2015. The FY 2017 budget estimates 286,000 households will receive rental assistance.
- ²⁰ “USDA Rural Development: 2015 Progress Report,” United States Department of Agriculture. January 2016. <http://www.rd.usda.gov/files/USDARDProgressReport2015.pdf>.
- ²¹ Affirmatively Furthering Fair Housing Final Rule (Jul. 16, 2015) <https://www.gpo.gov/fdsys/pkg/FR-2015-07-16/pdf/2015-17032.pdf>
- ²² United States. Dept. of Agriculture. Rural Development. *Water and Environmental Programs Annual Activity Report, Fiscal Year 2011*. Washington, DC: USDA, 2012.